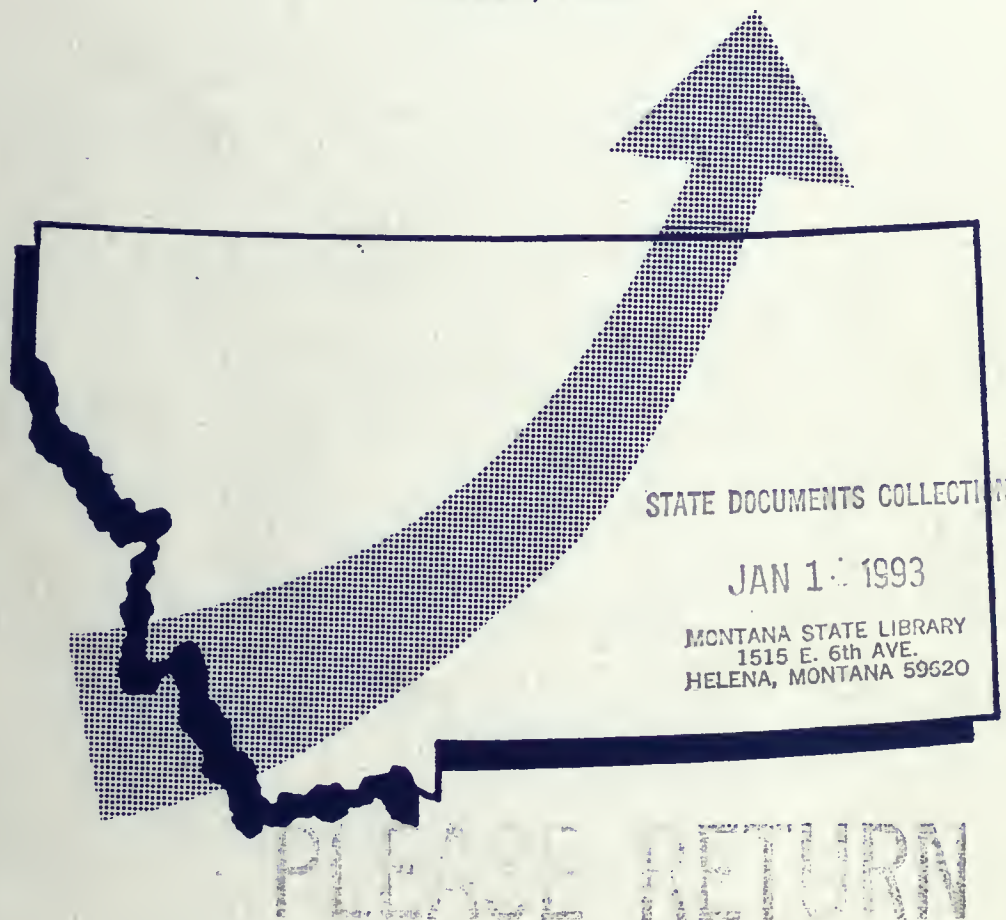


THE MONTANA FUTURES PROJECT

REPORT ONE: SITUATION ANALYSIS and PUBLIC RESPONSE

October, 1992



Prepared by:

The National Consulting Service
of the
National Association of State Development Agencies

Managed by:

Business Development Division
Montana Department of Commerce

Under direction of:

The Governor's Council for Montana's Future

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THE MONTANA FUTURES PROJECT

REPORT ONE: SITUATION ANALYSIS and PUBLIC RESPONSE

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The Montana Futures Project is charged with preparing a publicly-supported vision and agenda for the state's economic future, including goals for the stewardship and development of Montana's human, natural and industrial resources, and statistical benchmarks for measuring progress toward those goals. This vision and agenda are to be based upon the values and priorities of Montana's citizens, and informed by an understanding of the state's economic condition.

I. GENERAL INTRODUCTION:

OVERVIEW OF THE MONTANA FUTURES PROJECT

A. The Approach: What's Being Done and Why

-a Preface by the Council Chairman-

In 1970, in the course of producing the Montana Economic Study, the principal researchers for that project gave us a formula for working in a rational and coordinated way toward economic growth and job creation--a formula which has yet to be applied.

The authors wrote: "What we think is needed is an orderly continuous process which will allow Montanans to consider the facts, express their preferences, and permit priorities to be established and changed in light of current economic realities and citizen preferences." ¹

Economic development plans have been done since then, of course. But the process has not been orderly, or continuous. And it has not always been based on citizen preferences.

- Often, plans have been created by experts, and presented to the citizens only after they were done.
- However they were created, strategies have not always been implemented. We have planned what to do, but we have not always done what we have planned.
- And we have never been able to measure the results of our efforts by any agreed-upon standard. Even when we carried out our recommended programs and policies, it has been difficult to say how well or badly they worked, because the expected results--and ways to measure the results--were not built in at the start.

Twenty-two years later, in 1992, the Governor's Council for Montana's Future has taken on the task of changing all that.

•**Public Participation.** As the first and most fundamental step, the Council began by asking individual Montana citizens to declare what they want. Montanans were asked to consider the economic facts, express their preferences and identify priorities. We spoke to a total of 873 citizens at a series of 29 town meetings all across the state in May and June. Next, we conducted a statewide random telephone survey to delve into the issues that emerged as most important in the town meetings.

A vision of Montana's future, and goals for realizing that vision, will be composed from what was learned in the meetings and surveys. Is this "bottom-up" planning? We would rather think of it as a "top-down" process, with the top being the people of Montana.

¹ University of Montana, School of Business Administration, Bureau of Business and Economic Research, 1970, Montana Economic Study, pt.1, v.1, ch.1, p.1.90.

•**Benchmarks for Progress.** Report Two of the Futures Project will sharpen the focus, and introduce the element of accountability, by defining statistical benchmarks to measure the results Montana is looking for, and to mark progress along the way.

Do we want to increase incomes? How much, how broadly, and by when? Do we want to "diversify, strengthen and stabilize" our economy? What indicators will tell us that the economy is more diverse, strong and stable--or less? What exactly do we mean by those words--and how do we know if we're moving closer to the goal, or falling further away?

By setting benchmarks in advance, we can hold our institutions accountable--and prevent gamesmanship by factions who choose the numbers that bolster their own positions.

•**Continuity and Citizen Oversight.** Also in Report Two, the Council will make recommendations designed to see that an "orderly process" for giving Montanans a voice and a rational means for choosing their future is in fact instituted. The Council will consider recommendations on topics including the following:

- adoption of preliminary economic development benchmarks-- statistical measures of success--by the Montana legislature;
- assigning responsibility and resources to create a more extensive permanent set of benchmarks for the development and stewardship of Montana's human, natural and industrial resources;
- incorporating information on goals and benchmarks into the state's budgeting process;
- improving communication and coordination among the state's diverse planning efforts [listed in Section II.A., below];
- providing for continued citizen-led oversight, reporting, review and redirection of economic development activity;
- continuing a careful separation between goal-setting and benchmarking, on the one hand, and implementation strategies and tactics on the other. **Visions should not be confused in the course of disputes on how to realize them; and goals should not be lost when programs miss their aim.**

A main goal of the project is to work out a process of strategic planning that can bridge changes in administrations and legislatures.

To accomplish that goal, a key element of the Council's approach is to clearly separate the steps for defining and measuring goals from the steps for achieving them. Our work has already shown us that Montanans share a surprising degree of consensus in our vision of the

future--where we want to go. But the exact actions and programs--what we do to get there--will necessarily be matters of dispute, to be resolved in particular ways by particular administrations.

In order to keep the public's vision and goals separate from debates over tactics and programs, this Council's mandate ends with the statement of vision, goals, benchmarks and recommendations for continuity and oversight, in Report Two.

The Montana Department of Commerce and its consultants for the project, the National Association of State Development Agencies (NASDA), will present an action plan in Report Three, including suggested strategies and programs for reaching the public's goals and vision.

Report Three will be presented as a menu from which an incoming administration and legislature can select options for moving in the directions defined in the public input and participation stage of the Futures Project. It is explicitly recognized that not all the suggestions in Report Three will be acceptable to both the legislative and the executive branches; it is expected that some will be acted upon and others not.

Enactment of a comprehensive legislative program is not this project's objective, or its criterion for success.

Instead, if the public's goals can be firmly established; if ongoing public participation in goal-setting is instituted, along with public oversight, reporting and redirection of development activity; if benchmarking for accountability is adopted; and if a combination of actions are started toward the goals--then we will be able to say that the "orderly, continuous process" called for so long ago has been set in motion.

The Montana Futures Project is successful, if the means are put in place for Montana's future to become Montana's choice.

*-Jim Crane, Chairman
Governor's Council for Montana's Future*

B. The Council and Staff: Who's Doing It

In February, 1992, Governor Stan Stephens nominated a non-partisan panel of 22 Montanans, from many walks of life and all geographic regions of the state, to serve as the Governor's Council for Montana's Future.

Instead of asking interest groups to appoint representatives, the Governor selected people who had broad and varied experience, with knowledge of more than one aspect of our economy--people representative of Montana rather than a single interest.

As an example, there is one woman on the Council who lives on a ranch; who is an insurance agent; and who is the director of a local economic development organization in a rural area. She could represent women, or agriculture, or the insurance industry, or economic development agencies, or her home county. She was not nominated by any of those five groups, or appointed to represent any of them in particular, but obviously is familiar with all five. Her breadth of experience is typical of the Council members.

The tasks involved in creating this plan--the economic research, putting together surveys and questionnaires, organizing town meetings, writing the reports--are being done by staff from the Montana Department of Commerce and by consultants under contract from the National Association of State Development Agencies (NASDA). The project is primarily funded by a \$120,000 State 302(a) Planning Grant (#05-25-02517) to the State of Montana from the Economic Development Administration of the U.S. Department of Commerce.

C. The Program: Workplan and Schedule

REPORT ONE

(a) Situation Analysis

"where we are"

Policies and Performance. Consultant reviews the state's economic circumstances and policies, and locates them in the regional and global context.

(b) Public Visioning and Goal Setting

"where we want to go"

Town Meetings: Staff presents the situation analysis, and asks open-ended questions on values and issues for Montana's future.

Telephone Survey: Explores issues and values in depth, asking about priorities; costs and tradeoffs; performance levels; and urgency.

Publish REPORT ONE: SITUATION ANALYSIS & PUBLIC RESPONSE

REPORT TWO

(a) Vision and Goal Statement

Compilation: Governor's Council compiles information from town meetings, surveys and interviews, and frames a concise vision statement and list of goals.

(b) Benchmarks

"how we'll know when we get there"

Measures of Results. Council and consultants identify statistical milestones for measuring progress toward and achievement of goals and objectives.

(c) Oversight and Continuation

Recommendations for citizen-led monitoring, reporting, review and redirection of development activity and policy.

Publish REPORT TWO: VISION, GOALS & BENCHMARKS -- November, 1992

REPORT THREE (staff & consultants)

Action Plan

"what we do to get there"

Strategies for overcoming threats and weaknesses, to realize the stated goals and vision;

Actions and Programs to implement these strategies, with recommended legislation;

Publish REPORT THREE: STRATEGIES AND ACTIONS -- December, 1992

II. SITUATION ANALYSIS AND PUBLIC RESPONSE

The purpose of this first report from the Governor's Council for Montana's Future is to provide a general background of history and fact concerning Montana's economic circumstances, performance and policies; and to report the results of the public's response to questions on vision, values, issues, goals and priorities for the state's economic development over the coming 20 years.²

This report locates the discussion of Montana's future in the context of the following elements:

- (a) current economic development studies and initiatives;
- (b) past planning efforts;
- (c) an economic analysis of short-term trends and long-term structural change;
- (d) a comparison of Montana programs and policies to neighbor states;
- (e) an historical comparison of Montana's policies and programs--1992 versus 1982;
- (f) a business needs analysis--conclusions and recommendations from a concurrent study by the Corporation for Enterprise Development;
- (g) public response--findings and recommendations from town meetings, telephone and mail surveys;
- (f) a summary of economic development strengths and weaknesses.

The Council's second report will draw upon the situation analysis and public response to compose the citizens' vision of Montana's future, together with a set of broad goals for realizing that future, and a set of benchmarks for measuring performance and progress.

A. REVIEW OF ONGOING STUDIES AND INITIATIVES

Three complementary types of studies and initiatives are currently underway in Montana. **Statewide Strategic Studies** are designed to evaluate resources and opportunities and to recommend policies for the state of Montana as a whole. **Targeted Studies** are aimed at reviewing specific issues, specific industries, or specific agency or organizational activities in economic development. **Action Programs and Initiatives** implement specific strategies or ideas, and deliver services or resources to economic actors. Current examples in these three categories are listed below:

Statewide Strategic Studies

- State of Montana Strategic Economic Development Plan
-NASDA and Montana Dept. of Commerce, directed by Governor's Council

² Background material and documentation for the information summarized herein is published in a companion volume, the *Situation Analysis and Public Response Sourcebook*. The *Sourcebook* is available at all state depository libraries. Copies can also be viewed at the Montana Department of Commerce, 1424 9th Ave., Helena MT 59620, (406) 444-3923.

Targeted Studies

- Business Needs Analysis, Great Falls Area
 - Corporation for Enterprise Development
- Membership Survey and Strategic Plan
 - Montana Ambassadors
- The Wealth of Nature: New Economic Realities in the Greater Yellowstone Region
 - Montana Wilderness Society
- Montana: Change and Choices
 - Center for National Policy, Washington, DC
- Comprehensive Management Plan
 - Montana Dept. of Fish, Wildlife and Parks
- Science and Technology Plan
 - Science & Technology Alliance, Montana Dept. of Commerce
- Tourism Development Plan
 - Travel Montana Division, Montana Dept. of Commerce
- Transportation Strategic Plan
 - Montana Dept. of Transportation
- Water Development Plan
 - Montana Dept. of Natural Resources and Conservation

Additionally, blue-ribbon committees have recently completed or are in the course of completing studies on higher education, health care and workers compensation.

New Action Programs and Initiatives

- State Rural Development Council
 - Federal/state government initiative to improve communication, coordination and cooperation among existing federal, state, local, tribal and private development agencies
- Montana Competitiveness Council
 - Private sector initiative to overcome problems of small scale through formation of producer networks by Montana companies
- Economic Development Through Education Resources (ED/ER)
 - Public/private initiative, lead by IBM Corporation, to pursue economic development through investment in education

B. REVIEW OF PAST PLANNING EFFORTS

During the past 22 years, there have been 10 separate reviews and studies of Montana's economic position by various public agencies and private-sector consultants:

- In 1970, the Bureau of Business and Economic Research of the University of Montana completed the **Montana Economic Study**.
- Governor Thomas Judge presented the **Montana Governor's Policy Initiatives** in August of 1976 as the representative areas upon which he anticipated the executive branch would focus its primary attention during the 1977-79 policy cycle.
- The **Montana Economic Development Project**, co-sponsored by the state government and the Montana International Trade Commission, and prepared by McKinsey and Company, Inc., began working to identify and analyze new economic development opportunities for Montana in the spring of 1982, publishing a final report in January 1983.
- During the period between 1983 and 1988, several of the recommendations of the 1983 work were acted upon, and many more were directed to sector-specific task forces for further study. These included the proceedings of a July 1986 **Conference on Montana's Economic Future** featuring Dr. David Birch; papers presented to a **Conference on Taxation and the Montana Economy** in September of 1986; the **Report of the Economic Transition Task Force to the Governor** in November of 1986; and a March 22, 1987 **Special Edition Insert** published by the *Great Falls Tribune*.
- In December of 1988, the Montana Ambassadors (a private organization of business and university leaders) published **Partnership for Progress**, a report which summarized the opinions of the Ambassadors' membership on the Montana economy, analyzed the economy and its problems, and made a number of recommendations related to tax reform, education, capital availability, workers' compensation reform, and other key development issues.
- Also in December of 1988, the Governor's Council on Economic Development presented **The Next Century: Strategies for Advancing Montana's Economy**. The report drew upon the previous work of McKinsey and Co., David Birch, and other expert advisory groups, concentrating on broad strategies rather than specific program recommendations.
- The May 1990 **New Directions** report commissioned by the Montana State AFL-CIO and prepared by the Corporation for Enterprise Development, a private consulting firm in Washington, D.C., presented another agenda for organizing Montana's human and natural resources to build a "first-rate state economy."

In addition, a number of Montana cities, towns, tribes, and tourism regions have conducted studies particular to their own areas.

Many of the initiatives recommended in the 1983 McKinsey and 1988 Governor's Council reports have been implemented, and are contributing significantly to Montana's current economic success, including such Commerce Department programs as the international trade office, with foreign offices in Tokyo, Kumamoto, Taipei and Calgary; the Science and Technology Alliance (a seed capital lender for high technology business and research); and the Made in Montana marketing program. Comparisons of current programs against those of a decade ago, and against neighbor states, are shown in Sections D. and E., below.

C. ECONOMIC ANALYSIS: SHORT-TERM TRENDS AND LONG-TERM STRUCTURAL CHANGE

The economic analysis conducted by NASDA's National Consulting Service begins with a brief look into the immediate past. We will review the economic upsurge of the early 90s, and then compare Montana's relatively stagnant economy in the decade of the 1980s to the performance of our neighbor states and the U.S. economy as a whole.

Next, the analysis uses a University of Montana econometric model to forecast the immediate future, describing the outlook to the year 1994, for industrial sectors and for regions within the state.

1. SHORT-TERM TRENDS

a. The early 90s, versus the decade of the 80s: mixed signals.

Since the turn of the decade, Montana has received a continuing stream of positive economic news, culminating in late 1992 with the state's unaccustomed but widespread recognition as one of the brightest spots in the national economy.

Montana has held a national leadership position in per-capita income growth since 1989, when the state registered a 9.4% increase over the previous year, compared to a U.S. average of 6.6%. In 1991, Montana was second in the nation in per capita income growth, following only Wyoming in that category. Wyoming's income grew by 5.1% and Montana's by 4.8%, compared to a national average of 2.1% income growth. But our performance in 1991-1992 surpassed even that record: Montana's annual per-capita income growth rate of 7%, compared to a U.S. average of 2.4%, was first in the nation.²

There is a variety of other good news, reinforcing the per-capita income statistics.

Montana's Department of Labor and Industry reports that total non-agricultural employment has increased every year for six years running, from an average of 275,400 in 1986 to 312,400 in August, 1992.

US West Corporation, in a June 1991 report, identified Montana as "truly one of the West's biggest comeback stories of the late 1980's," based on 1989 to 1990 net employment growth among small

² All figures from US Dept of Commerce, Bureau of Economic Analysis (US DOC/BEA).

businesses of 9.8%, buoyed by a remarkable 31.9% growth rate among small exporters, and a 12.4% employment growth rate among women-owned small business.

On a broader index of economic strength, *U.S. News & World Report* ranked the Montana economy sixth in the nation, in a September 14, 1992 analysis based on unemployment decline, home-price growth and business bankruptcy rank, as well as job and income growth.

On September 21, Kemper Securities' Tax-Exempt Fixed Income Research report weighed in with a ranking of Montana as the nation's number one state economy, on an index composed of changes in employment, home sales, mortgage delinquencies and foreclosures, and unemployment rates.

Early indicators also predict renewed growth on another front: population. In a story carried on the front page of the September 9 Helena *Independent Record*, Allied Van Lines reported that Montana has moved up from 12th in 1990 to 3rd in 1991 on the company's list of "magnet" states--those in which moves into the state are at least 55% of the total moving business. The Allied information was mirrored by United Van Lines, which saw Montana move from 12th in 1990 to 6th in 1991 on its list of "magnets."

Even the composition of production seems to be changing in the direction long advocated by economic policymakers, as exporters of value-added products nearly doubled their share of total Montana export sales, from 15% in 1988 to 29% in 1991.

So there is much good news. But, given the booms and busts that have characterized our history, we Montanans have learned, as well we should, to take our upturns with a grain of salt. The historian K. Ross Toole, quoted in *The Next Century* (Montana's 1988 strategic plan), puts it strongly:

"Montana's growth...conforms to the patterns of the land itself. For every pinnacle there is an equally impressive declivity. For every sudden rise, a sudden fall."

The University of Montana's Bureau of Business and Economic Research also warned, in a public comment on the per-capita income news above, that there is little reason to believe that we have fundamentally turned the corner, given continued weakness in the state's traditional "basic industries," particularly the wood-products sector.

Perhaps we need not fear an immediate fall. There are, after all, some clear reasons for Montana's emergence from the long recession of the early 80s: the continued growth of tourism and medical services; a burgeoning of income from dividends, interest, rents and transfer payments; recovery of agricultural and mining incomes; reductions in consumer and farming debt; support for the retail sector from Canadians crossing the border to avoid the Goods and Services Tax (GST); and the general shakeout effect of a long recession, which in itself tends to streamline and strengthen surviving companies and industries.

But it is well to remember the experience of only a few years past.

There is indeed another side to our recent economic history. From 1979 to 1989, real median household income in Montana (household income after adjustment for inflation) fell from almost \$26,000 to under \$23,000, according to the 1990 census. And, despite Montana's

recent leadership in per-capita income growth, over the whole decade of the 1980s Montana's real per-capita income grew only one-third as fast as income for the U.S. as a whole.

One consequence of relatively slow growth in incomes for the decade was an increase in poverty: the percentage of Montanans living in poverty rose from 12.3% in 1979 to 16.1% in 1989--an increase from 94,280 persons to 124,853 persons living in poverty. And Montana's slow growth in population had the widely-publicized political consequence of causing the state to lose one of its Congressional representatives.

Good news and bad news. Which picture is the true picture?

In fact, they both are true. These seemingly contradictory facts illustrate a business cycle, with a heavy downturn in the first half of the decade followed by moderate recovery beginning in 1987. That recovery is still modest, by normal standards. What has drawn the national spotlight is Montana's steady, moderate growth in contrast to weak and even negative growth in most other sections of the U.S., since 1990.

It is important for us to absorb the lessons of the immediate past, and apply them to the immediate future. It is still more important for us to look beyond these short-term cycles, and recognize the long-term structural changes that are transforming our economy.

After exploring Montana's performance in the 1980's in more detail, and providing an outline economic forecast to the mid-90s, we will return to the theme of long-term structural change and its significance for our state.

b. Stagnation in the 1980s: Montana compared to neighbor states and the U.S.

Using data taken from the 1991 *Statistical Abstract of the United States*, U.S. Department of Commerce, the NASDA economic analysis³ compared Montana to its four neighboring states in four key socio-economic categories:

- 1) State resident population;
- 2) Number of households;
- 3) Nonfarm employment growth; and
- 4) Real per-capita personal income.

³Richard Booser, "An Economic Analysis of the State of Montana," prepared for the National Association of State Development Agencies, March 1992.

Findings include:

- Montana had a greater percentage gain in resident population (1.6%) from 1980 to 1990 than Wyoming, North Dakota, and South Dakota. Idaho's population grew 6.7% during this period, while U.S. population grew by 20.1%.
- Montana had a larger percentage change in the number of households from 1980 to 1990 (7.9%) than Wyoming, North Dakota, and South Dakota. Idaho's households increased four percentage points more than Montana's during this period. U.S. growth was 14.4%.
- Between 1980 and 1989, Montana realized smaller growth in the level of non-farm employment (3.6%) than all its neighbors except Wyoming, where non-farm employment actually declined. North Dakota, South Dakota, and Idaho outpaced Montana in non-farm employment growth during the same period, with South Dakota (the highest) gaining more than 15%. Growth for the U.S. was 19.9%.
- Between 1980 and 1989, Montana had smaller percentage growth in real per-capita personal income (7%) than the other states except for Wyoming, where the statistic was negative. North Dakota, South Dakota, and Idaho outpaced Montana for the period, with South Dakota (the highest) growing more than 12%. U.S. real per-capita personal income grew 18.6% for the decade.
- For the decade, Montana lagged behind total growth in the United States in all four categories.

Other findings of the comparative historical analysis include:

- At 0.5%, Montana had the slowest growth in inflation-adjusted manufacturing production worker hourly earnings in the contiguous region. Within the region, only Wyoming production wages (at 4% real growth) grew faster than national wages (at 2%).
- Montana possesses a regional specialization in mining, transportation, communications, utilities, and retail trade relative to the U.S. economy. These industries represent, in part, Montana's competitive advantage relative to the U.S. economy.
- "Basic" industries for Montana (those which export goods and services to other states or countries) are agricultural services; farming and ranching; oil and gas extraction; coal, metal and non-metallic mineral mining; rail and other transportation; manufacturing (particularly lumber and paper products and food processing), tourism, selected services (such as engineering and design services), and federal government. Despite their great historical and continuing importance, employment in the industrial sectors of agriculture, wood and paper products, mining and rail transportation has been declining as a percentage of total Montana employment over the past several decades.

c. The mid-90s: a short-term forecast.

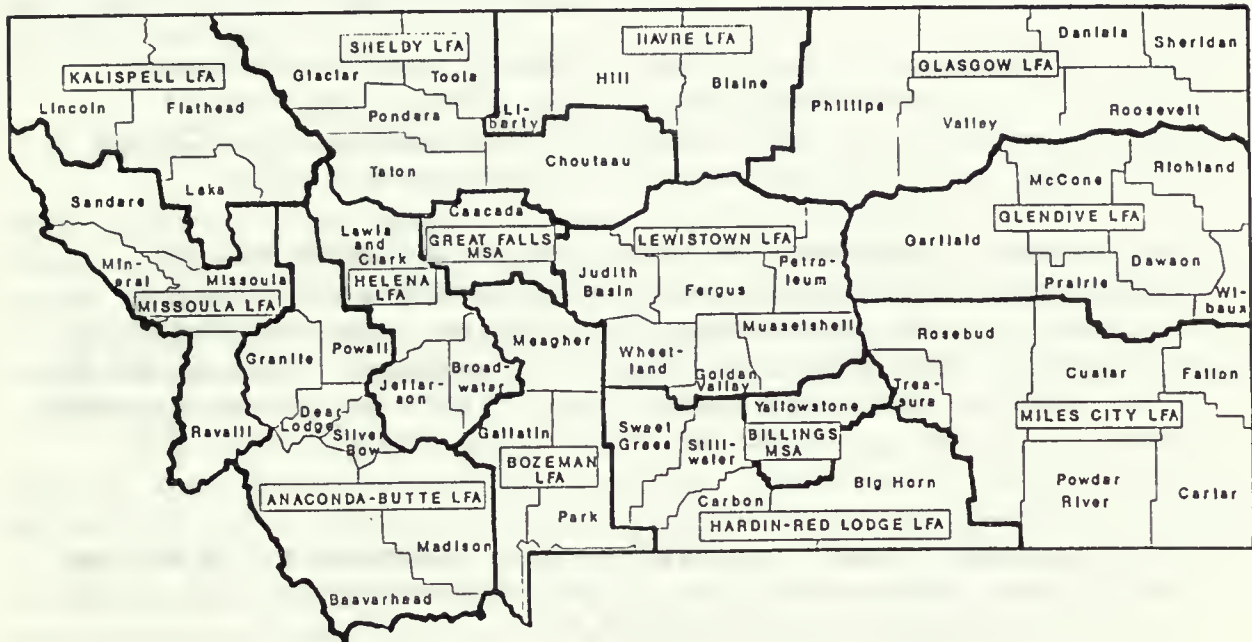
Utilizing an econometric forecasting model created by the Bureau of Business and Economic Research at the University of Montana, NASDA forecast the state's economic performance, for industrial sectors and sub-state regions, through 1994. The forecast takes 1990 as the base year for its projections.

Highlights of the forecast by industrial sector are:

- Mining (-6.2%), wood and paper manufacturing (-11.9%), railroads (-10.2%) and agricultural services (-6.8%) are all expected to experience negative economic growth from 1990 to 1994 in real labor income. Employment also is forecast to decline in these industries. Metal and non-metallic minerals mining are expected to reverse declining trends starting in 1991, but by 1994 all mining activity will remain below 1990 levels.
- The service-producing sector will continue to experience economic growth from 1990 to 1994 in both real labor income (9.7%) and employment (7.8%).
- Farming is expected to experience strong growth from 1990 to 1994 in real labor income (24.0%).
- Tourism expenditures should continue to increase moderately between 1990 and 1994.
- Federal government activity is a basic industry for the Montana economy. However, the federal government "industry" can be expected to play a diminished role in Montana's future, as employment in that sector continues to decline.
- Statewide real labor income (5.7%) and employment (3.8%) will both increase from 1990 to 1994 as a result of growth in farming and the service-producing industries.
- Statewide real personal income--which includes such categories as interest, rents, and profits--is forecast to decrease 3.0 percent from 1990 to 1994, largely due to lower interest rates and falling rents nationwide.
- Future employment opportunities will continue to be generated primarily by service-producing activities, although farming also will grow in the short term. Mining and manufacturing will generally continue to provide fewer employment opportunities. From a real labor income perspective, Montana will experience economic growth. However, given the projected decline in real personal income (including income such as rents and transfers), overall statewide economic growth, adjusted for inflation, will be negative.

From a sub-regional perspective, Montana's economy is divided into twelve Labor Force Areas (LFAs) and two Metropolitan Statistical Areas (MSAs) shown on the map below.

Montana's Labor Force Areas



Findings for Montana's sub-regions are as follows:

- All 12 Labor Force Areas and the two Metropolitan Statistical Areas are forecast to experience economic growth in both total employment and real labor income from 1990 to 1994.
- The uniform major basic industries for the eastern half of the state are agriculture (including livestock) and mining--primarily coal, oil and gas extraction, and non-metallic minerals. Fifty percent of all mining employment occurs in the eastern half of the state.
- The western half of the state also engages in mining of metals, non-metals, and fossil fuels; mining constitutes a major basic industry for the Shelby and Anaconda-Butte LFAs.
- Fifty percent of manufacturing employment statewide takes place in the Kalispell and Missoula LFAs. The basic manufacturing industry for these two LFAs is wood products.
- The wood-products industry is Montana's largest manufacturing employer. Food processing and printing and publishing are also important manufacturing industries which are more evenly distributed throughout the state's sub-regions.

- The Billings and Great Falls MSAs will lead the state in growth. These sub-regions have a specialization in service-producing basic industries (retail, wholesale, financial services, and general services). Billings' real labor income and employment will increase by 6.1% and 4.7%, respectively. Great Falls' real labor income and employment will increase by 6.2% and 4.8%, respectively, during the 1990 to 1994 forecast period.
- The Hardin-Red Lodge, Lewistown, Glendive, Miles City, and Shelby LFAs are forecast to have the lowest growth rates in the state. These sub-regions have a significant specialization in mining. Hardin-Red Lodge, Lewistown, Miles City, and Glendive LFAs have the highest levels of mining specialization in the state.
- Six of the seven major Montana trade centers--Yellowstone, Cascade, Missoula, Gallatin, Flathead, Lewis and Clark, and Silver Bow counties--are located in the western half of the state geographically (although Cascade is often considered socially and economically a part of the East). Those sub-regions located in the eastern half of the state which are not in close proximity to the seven major trade centers are generally forecast to have lower growth rates than the sub-regions in the western half of the state.
- In terms of spatial relationships, the northeast and southeast quadrants of the state are generally expected to have limited trade linkages with the major trade centers, a factor which may contribute to lower economic growth.
- Each of the 14 sub-regions is forecast to experience increases in total employment, but because the structural economic changes occurring as a result of national and global market and supply factors, the employment mix will continue to favor more service-producing jobs and less mining, agricultural services, and manufacturing jobs. Employment opportunities will continue to shift from the goods-producing sector to the service-producing sector.

In sum, each of Montana's sub-regional economies should experience growth in both real labor income and employment from 1990 to 1994. A shift in employment opportunities will favor service-producing sector jobs. Those sub-regions specializing in mining activities and not in close proximity to the major trade centers will generally experience lower growth. Overall, Montana's income growth will be negative from 1990 to 1994, as total real personal income is expected to decrease by 3%.

2. LONG-TERM STRUCTURAL CHANGE

Beneath Montana's characteristic boom-and-bust cycle--illustrated by the rapid growth of the 70s, the recession of the early 80s, the "fragile recovery" of the early 90s and the predicted downturn of the middle 90s--there lie concealed some surprisingly consistent and surprisingly large long-term transformations. Deeply-embedded movements of this kind, which persist through cyclical ups and downs, are referred to as "structural." Structural changes are important for planning. They give us a sense of predictable directions underlying the volatility of recent and current events.

This section of the analysis relies primarily on a 50-year time series of changes in employment share by industry to demonstrate long-term structural shifts in the relative size and significance of Montana's major industries. A similar but less extensive analysis reveals some equally momentous changes in the composition of personal income in the state. These large, long-term movements are transforming our economy. In fact, because of changes that have already occurred, Montana's industrial character and income patterns no longer fit some of the common stereotypes of the state.

a. Shifts in Employment Share.

Montana, like other western states and provinces, is experiencing dramatic shifts in how its traditional resource-based and manufacturing industries are positioned in national and global markets. Since the end of World War II, the Montana economy, like the United States as a whole, has moved from goods producing toward service producing. This movement has occurred for many reasons, including global competition, changing technology and changing consumer preferences.

The extent and persistence of these structural changes is illustrated in the charts reproduced at the end of this section, which were originally prepared by the Montana Department of Labor and Industry's Bureau of Research and Analysis. Going back to 1947, and forward to employment projections for 1997, these charts cover 50 years of employment history in our state, and illustrate graphically what we mean by a long-term structural change.

Each chart traces employment in a given major industry group, as a percentage of total non-farm employment. (Because of its volatility, and differences in data collection, agriculture is shown in a separate time series, as a percentage of total Montana employment.)

The left scale of each chart shows percentage shares of employment; the bottom scale shows years. It is important to note the actual numbers shown at the left, since each chart is drawn to a different scale. Tracing the chart from left to right, a rising line indicates that an increasing percentage share of Montana's employment was provided by the industry in question; and a falling line denotes a falling share of overall employment, year by year.

The first chart shows **mining employment** as a percentage of total non-agricultural employment. Over 50 years, mining's share of employment has fallen by more than half, from 7% of all Montana employment to 2%. The short-term cyclical ups and downs and the long-term overall trend are easily seen. Between 1947 and 1991, actual numbers of mining jobs fell from 9,600 to about 6,000.

Manufacturing, which includes lumber and timber production, is shown next. The percentage share of Montana's employment provided by this major industry group has fallen, over 50 years, from 18.4% of all non-ag jobs, to 7%.

It is a clear long-term trend, again despite the smaller cyclical deviations in the line. Notably, the steady decline in employment share (percentage of total jobs) does not in this case mean a decline in absolute numbers of jobs.

What the chart shows is simply that this industry is growing slower than the overall economy of which it is a part. In 1947, total non-agricultural Montana employment was 138,200; by 1991 it had risen to over 302,000 (a 118% increase). In the same period, manufacturing jobs increased slightly, from 18,400 to 21,700. Manufacturing and timber employment are not disappearing, but they are becoming a smaller part of the total picture.

We see the same trend for **transportation, communications and public utilities**--a 50-year drop from 16% of total non-agricultural employment to 7% of the total. Again, absolute numbers of jobs in this industry have remained relatively steady, at 22,200 in 1947 versus 20,300 in 1991. Government's share of employment also has declined sharply in Montana.

Placed next is a similar, but less detailed and less extensive chart for **agriculture**, Montana's largest traditional basic industry. Again, we see clear evidence of the same long-term direction in share of total employment (figures in this data series from before and after 1969 were not comparable). Total Montana employment, including agriculture, was 299,773 in 1970, at the beginning of the period shown, and had risen to 438,073 by 1991. Agricultural employment was 36,490 in 1970, and had fallen to 30,718 by 1991.

It is important to realize that, disturbing as they may be, in a very real sense these figures represent a success story--the success of these mature industries in meeting the competition by becoming more efficient, year after year. Efficiency implies less units of input per unit of output; the unfortunate effect is that labor, and hence wages (as units of input), are therefore in relative decline.

The problem created is one of excess labor, and a need to shift that labor to other productive activity. The remainder of the charts illustrate how Montana has been meeting that challenge.

Recall that total employment has risen sharply over the full period, increasing by almost 5,000 jobs just between 1990 and 1991. Under those conditions, when some industries are losing percentage share, it is mathematically necessary that some other industries must be gaining percentage share.

The chart for the **finance, insurance and real estate** industry group goes up steeply, for example, but is a small percentage of total employment. This group's employment share doubled, from 2.6% of total employment to almost 5%, in 50 years. That is a growing share of a growing pie--it means an increase from 3,600 jobs to a projected 14,500 jobs in 1997.

Another gainer, **wholesale and retail trade**, bounces around substantially and eventually goes up, from 25% to 27% of all employment. This industry is so large in absolute numbers that a mere 2% gain translates into a jump from 34,100 up to 85,000 jobs, over the 50 year period.

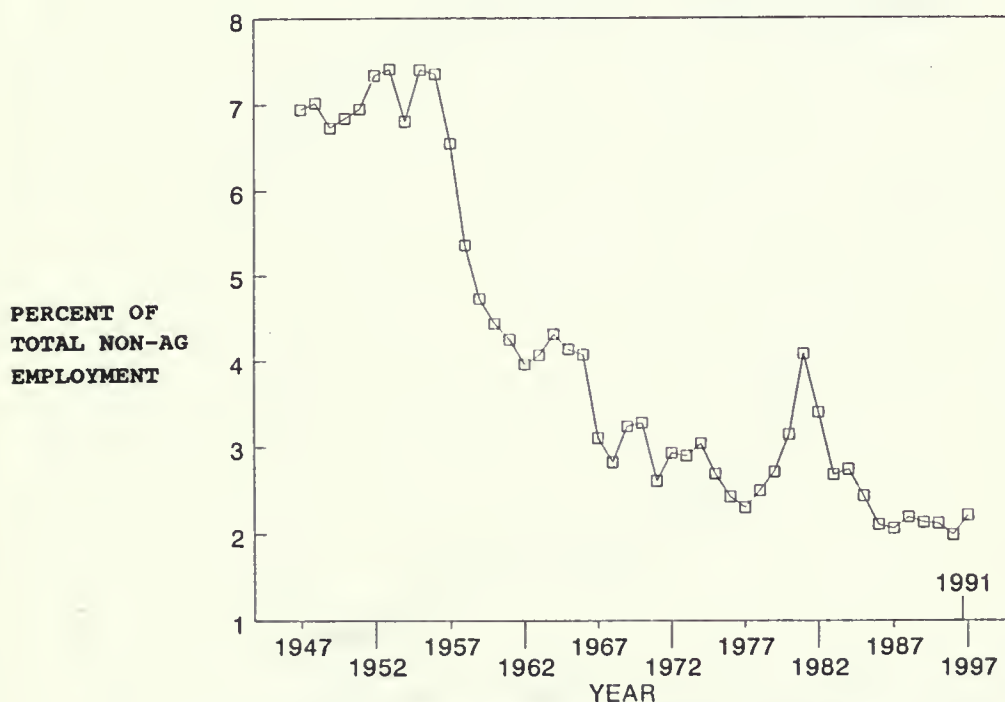
The largest gains of any major industry group are recorded in the general services category, which includes all service-producing industries other than wholesale/retail trade, finance/insurance/real estate, and transportation/communications/utilities: everything from professionals (doctors, lawyers, economists) to hotel managers, hunting guides and auto mechanics. This industry grew steadily for the whole 50 years, almost without pause, from 13% to 26% of all nonagricultural jobs. That is growth from 17,400 jobs to a projected 81,000 jobs in 1997--an average annual gain of 7.3% sustained for 50 years.

The structural change, then, is clear: a large, long and consistent movement in share of employment from goods-producing to service-producing industries. And to a large extent, this also represents a movement from the "basic" sector, which exports its production to other states and countries, to the "derivative" or domestic sector, which primarily serves local residents.

The figures therefore demonstrate, quite dramatically, the ability of the so-called "derivative" industries--the ones that provide goods and services to people living in Montana--to keep growing, over an extended period of years, and even to grow rapidly, when the "basic" industries are not growing or are growing very slowly. Regional growth economists don't seem to have a very good explanation for how the derivative industries can do this. But these industries' capability for independent growth is plain.

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES - 50-YEAR TIME SERIES -

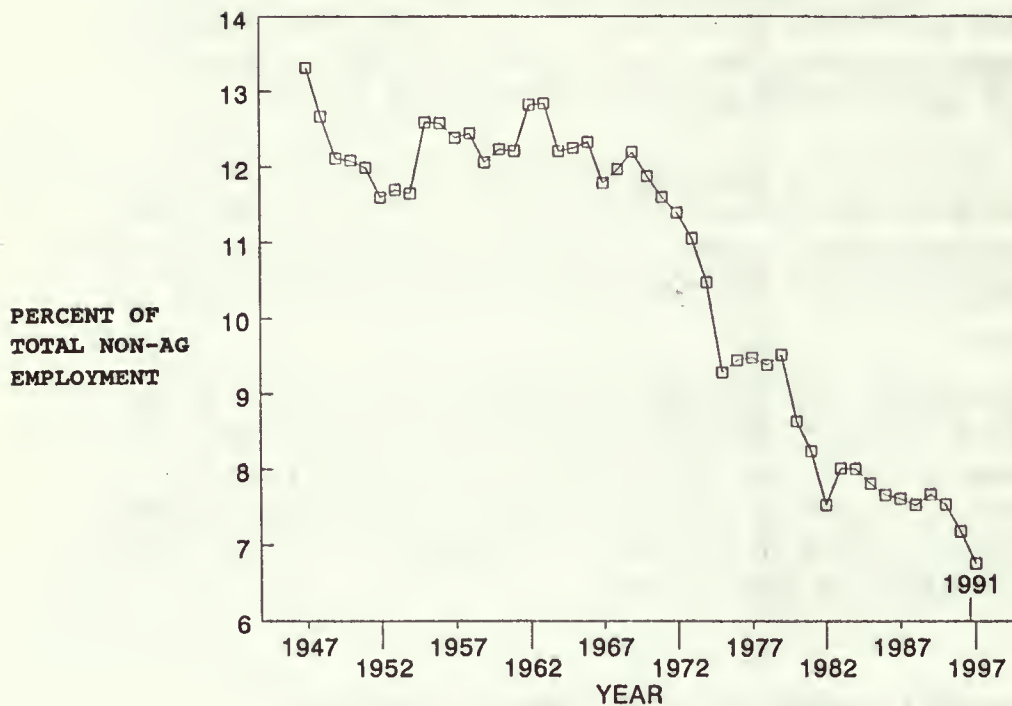
INDUSTRY: MINING



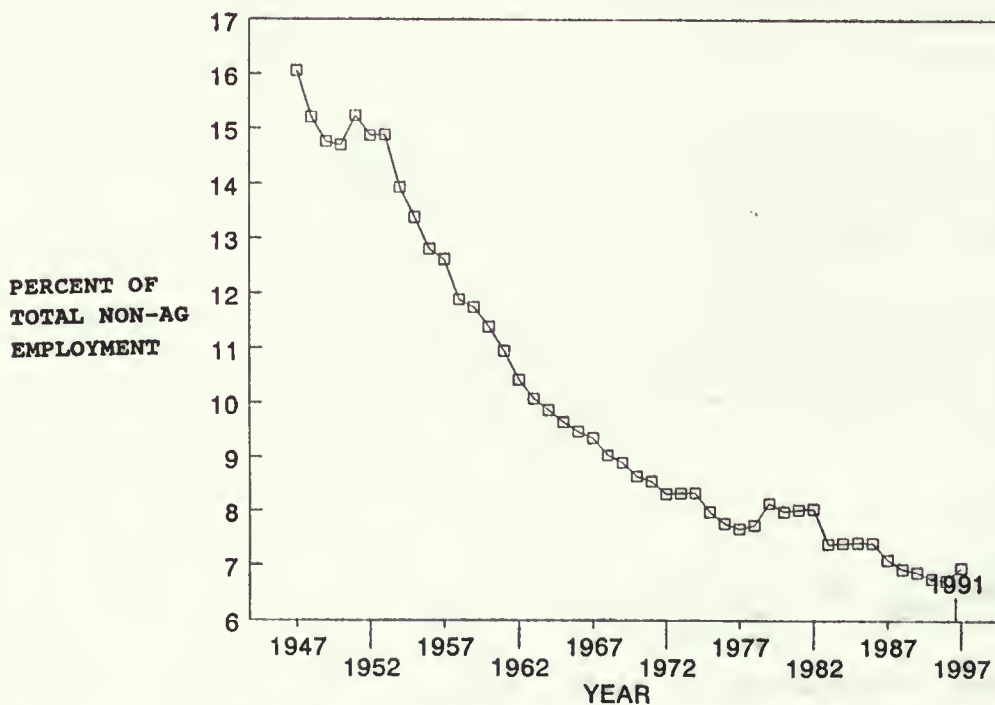
Source: Montana Dept. of Labor & Industry, 1992.

**EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES
- 50-YEAR TIME SERIES -**

INDUSTRY: MANUFACTURING
(includes lumber and timber)



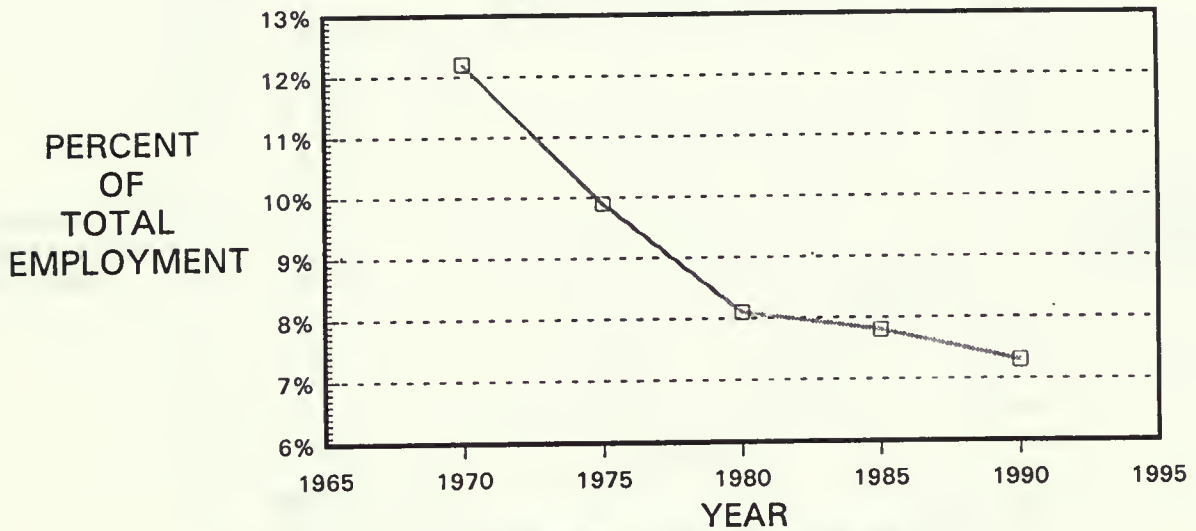
INDUSTRY: TRANS, COMM, PUB UTIL



Source: Montana Dept. of Labor & Industry, 1992.

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES

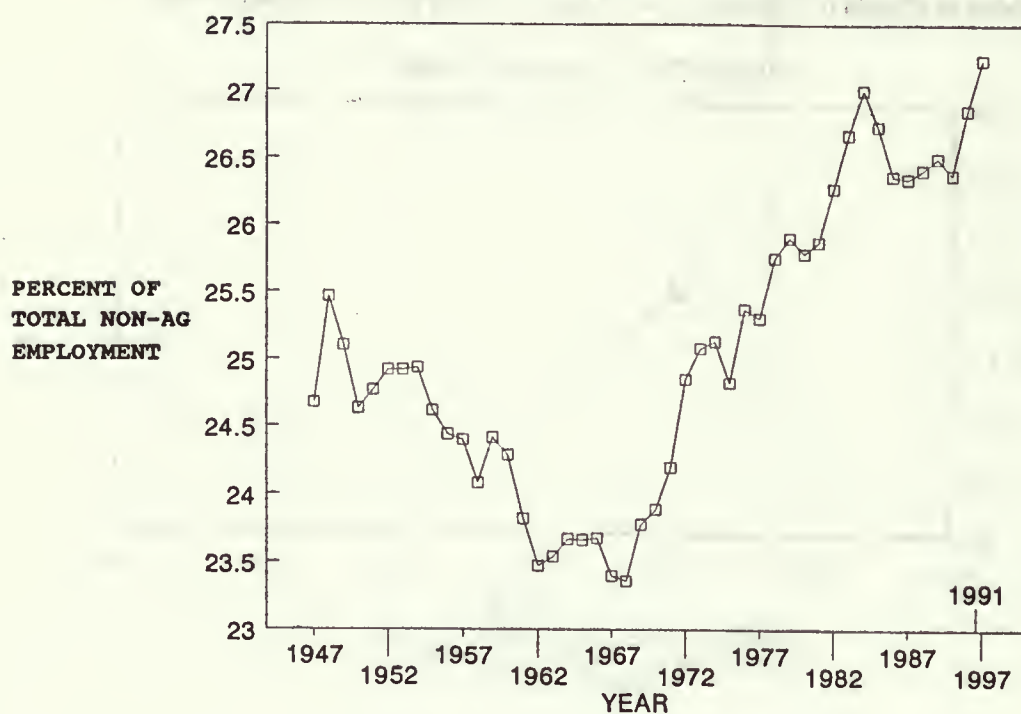
INDUSTRY: AGRICULTURE



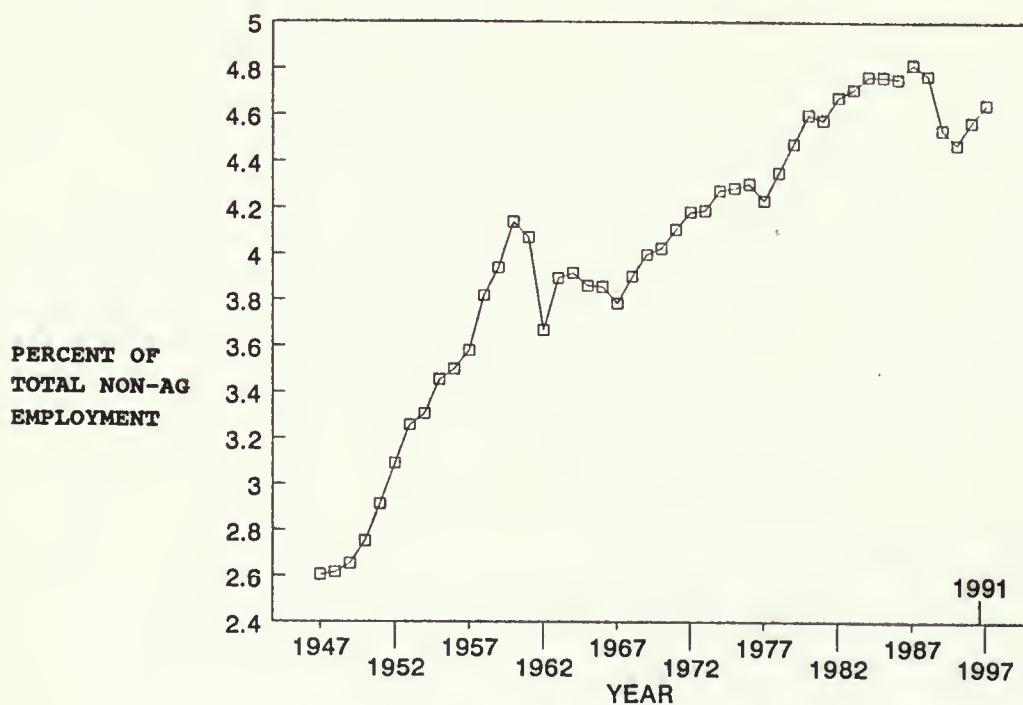
SOURCE: BUREAU OF ECONOMIC ANALYSIS 09/92
DATA PRIOR TO 1970 ARE NOT COMPARABLE
TO LATER YEARS.

**EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES
- 50-YEAR TIME SERIES -**

INDUSTRY: TRADE



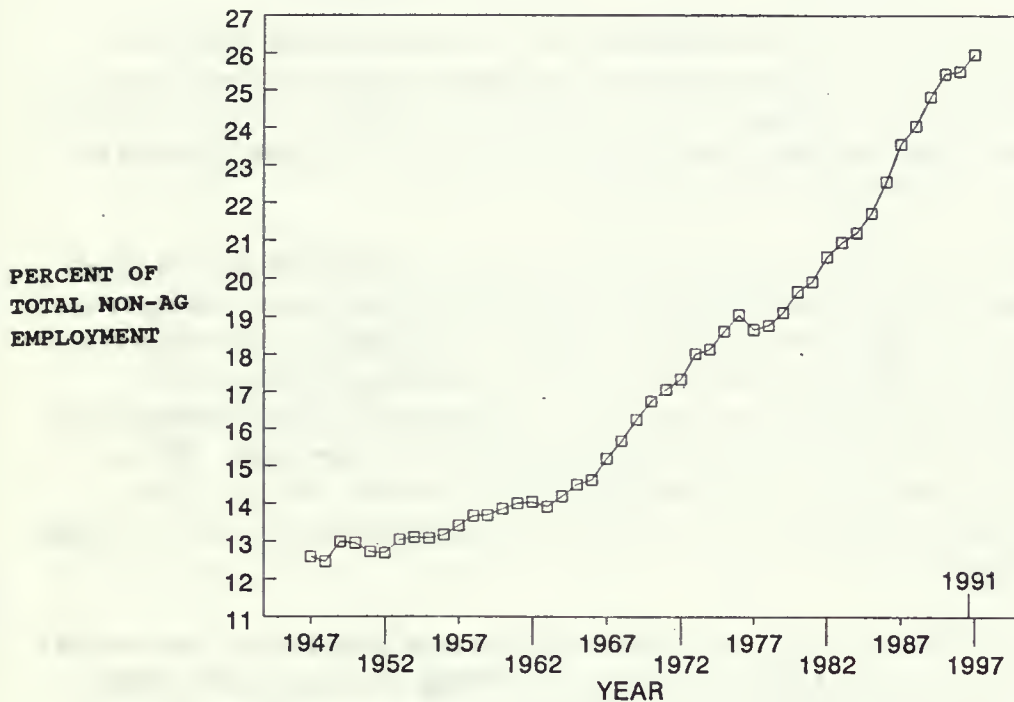
INDUSTRY: FINANCE, INSURANCE, R.ESTATE



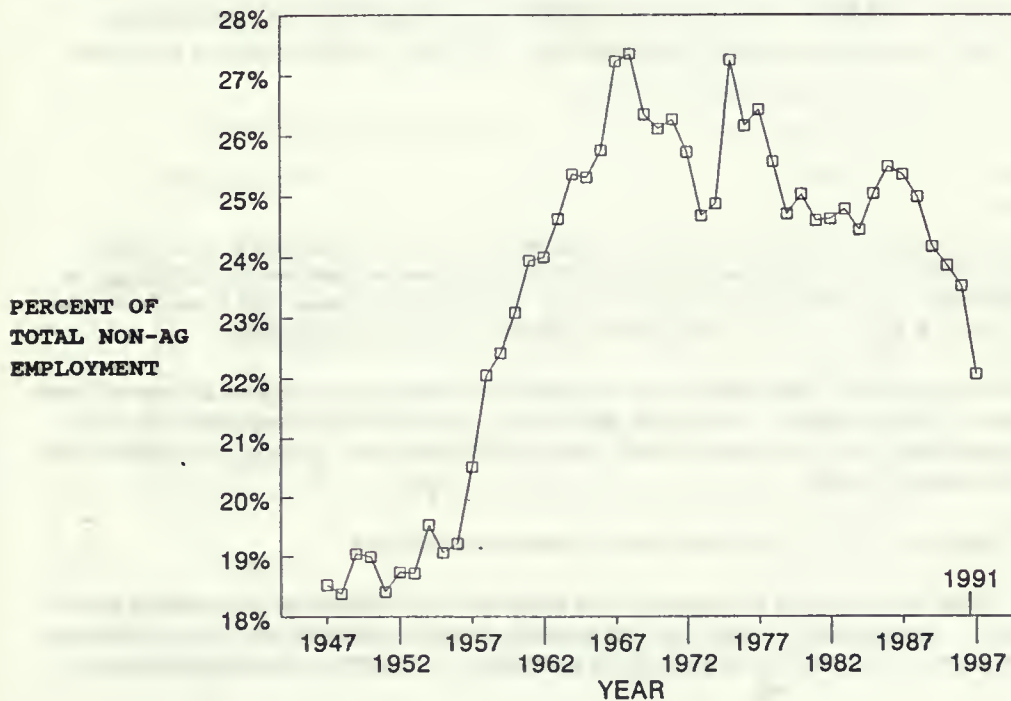
Source: Montana Dept. of Labor & Industry, 1992.

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES
- 50-YEAR TIME SERIES -

INDUSTRY: SERVICES



INDUSTRY: GOVERNMENT



Source: Montana Dept. of Labor & Industry, 1992.

b. Results of Structural Change: Montana's Largest Industries.

As a result of the structural changes discussed in the previous section, Montana's economy has become different from what we are accustomed to thinking it is. It is not just an economy that is going to change--it is an economy that has already changed.

Most Montanans who attended the series of strategic planning town meetings shared the opinion that our largest industries are agriculture, tourism, lumber and timber (which are included in manufacturing) and mining, in about that same order. Exhibit A on p. 19 presents the current facts of the matter--the most relevant and accurate figures we have by which to rank industry size: employment and personal income.⁴

Regrettably, tourism is not included in these tables, for the simple reason that tourism is not classified as a separate industry in the national statistics. Instead, employment and incomes pertaining to tourism are scattered among a variety of other classifications, including services, retail/wholesale trade, and some manufacturing. We do have estimates for total direct employment supported by tourism expenditures--about 29,300 in 1991, which would rank the industry fifth among all major industry sectors if the data were truly comparable. But in order to make a proper comparison, employment due to tourism would first have to be deducted from each of several standard industry sectors, producing an entirely new set of data that is currently not available.⁵

Given these limitations of the statistics, Montana's largest private industries by number of persons employed are, in order: services, retail trade, farming, finance/insurance/real estate, and manufacturing (including lumber and timber). Services are by far the largest private-industry sector, with 26.8% of the total, compared to 18.7% for retail and 7.0% for farming. Including public employment in the picture, all government (federal, state and local together) would be in third place, at 18.4%.⁷

Montana's largest private industries by personal income and earnings are shown on p. 19: once again, #1 is services and #2 is retail trade, followed in order by transportation/communications/utilities, manufacturing and farming. If public employment is included, all levels of government would come in second place.

⁴Industries can also be ranked by total value of goods and services produced. We know of two sets of figures for total output: gross domestic product (calculated by the U.S. Department of Commerce, Bureau of Economic Analysis), and total cash receipts (as calculated for Montana agriculture by the Agricultural Statistics Service). These sets of figures differ wildly. Cash receipts from market sales for 1989 were estimated at \$1.8 billion, while gross product for the same year was estimated at \$869 million.

Not having an agreed-upon way of reconciling these differences, we have confined the comparison to employment and personal income figures, about which there is no dispute. Additionally, although total value of output is one valid way of ranking industry size, clearly what matters most to the state's residents and to the state's economic growth are the figures shown: numbers of people employed and the incomes received by employees and owners.

⁵Tourism employment figures from Travel Montana Division, Montana Department of Commerce.

⁷Percentage figures from the "Largest Industries by Employment" table are not directly comparable to the graphs showing industry employment as a percentage of total nonagricultural employment. The tables use all reported employment from the U.S. DOC/Bureau of Economic Analysis; the graphs use Montana DOLI figures for covered employment only--employees covered by Unemployment Insurance.

EXHIBIT A

FULL-TIME AND PART-TIME EMPLOYMENT IN MONTANA, 1991

Total Employment	438,073
Wage and Salary	332,547
Proprietors	105,526
Non-Farm	81,768
Farm	23,758

Employment by Major Industry Sectors

Rank	Sector	Employment	Percent
#1	Services	117,193	26.75
#2	Retail Trade	81,780	18.67
#3	Government & Government Enterprises	80,463	18.37
#4	Farm	30,718	7.01
#5	Finance, Insurance & Real Estate	28,190	6.43
#6	Transportation & Public Utilities	24,565	5.61
#7	Manufacturing	24,404	5.57
#8	Construction	20,973	4.79
#9	Wholesale Trade	17,121	3.91
#10	Mining	6,712	1.53
#11	Agricultural Services, Forestry, Etc.	5,954	1.36
	Total	438,073	100.00

PERSONAL INCOME AND EARNINGS IN MONTANA, 1991 (In thousands of dollars unless stated otherwise)

Total Personal Income	12,672,947
Nonfarm Personal Income	11,783,950
Farm Income	491,526
Population (1991 midyear estimate)	808,000
Per Capita Personal Income (dollars)	15,675
Per Capita Personal Income Rank	39th

Earnings of Individuals by Major Industry Sectors

Rank	Sector	Earnings	Percent
#1	Services	1,998,329	24.44
#2	Government & Government Enterprises	1,726,639	21.12
#3	Retail Trade	1,033,458	12.64
#4	Transportation & Public Utilities	734,764	8.99
#5	Manufacturing	673,094	8.23
#6	Farm	491,526	6.01
#7	Construction	442,656	5.41
#8	Wholesale Trade	427,176	5.23
#9	Finance, Insurance & Real Estate	331,557	4.06
#10	Mining	250,720	3.07
#11	Agricultural Services, Forestry, Etc.	65,349	0.80
	Total	8,175,268	100.00

c. Montana Mirrors the National Economy in These Changes.

Exhibit B on p. 21 sums up the overall impact of structural change in industry size on Montana's employment profile, and compares changes in the state to changes in the national economy, from 1960 to 1990.

By 1990, the service-producing sector as a whole (including general services, retail and wholesale trade, finance/insurance/real estate, and transportation/communications/utilities) accounted for about 63% of all nonfarm employment in Montana. The goods-producing industries (manufacturing, construction and mining, including agricultural and forestry services) employed about 13%, and government accounted for 24%. Farming supported about 7.3% of total employment in Montana.⁸

The key point here is that Montana is not alone in either the way employment and earnings are distributed among industrial sectors, nor in the direction of change in share of employment and earnings among industries. As exhibit B "STRUCTURAL CHANGE IN U.S. AND MONTANA" shows, the state has moved in exactly the same direction as the national economy, although slightly faster and farther.

The changes are remarkably similar. Mining's share of employment was cut almost in half, between 1960 and 1990, in both Montana and the U.S. as a whole. Montana manufacturing fell from 12% to 7.5%, while U.S. manufacturing was falling from 31% to 19%. And in both Montana and the U.S., the service sector grew, to represent 63% of nonfarm Montana jobs and 59% of nonfarm jobs in the whole U.S.

This tells us that we are not alone, but that we are responding to changes in the global economy, just as the United States as a whole is responding. And it tells us that the changes we see in Montana are not the result of special circumstances, policies or business climate issues in Montana alone. The same changes are happening everywhere in our nation.

⁸These figures, from Montana Dept. of Labor & Industry, track employment covered by Unemployment Insurance, and are not directly comparable to the figures in Exhibit A, p. 19, which track all reported employment. Government, for example, was a much smaller proportion (18.6% in 1990) of the broader measure of all reported employment, tracked by the U.S. Bureau of Economic Analysis.

EXHIBIT B

STRUCTURAL CHANGE IN U.S. AND MONTANA INDUSTRY EMPLOYMENT

Employment Trends as a Percent of Total Nonfarm Employment

<u>Year/Industry Sector</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>
MT Mining	4.4%	3.3%	3.1%	2.1%
U.S. Mining	1.3%	0.9%	1.1%	0.7%
MT Manufacturing	12.2%	11.9%	8.6%	7.5%
U.S. Manufacturing	31.0%	27.3%	22.4%	19.0%
MT Service-Producing	53.7%	53.3%	58.0%	63.0%
U.S. Service-Producing	46.9%	49.0%	53.7%	59.0%
MT Government	23.1%	26.1%	25.0%	23.9%
U.S. Total Government	15.4%	17.7%	18.0%	16.5%

Source: Annual Planning Information for 1991-1992, Montana Department of Labor & Industry, and the 1991 Statistical Abstract of the United States, U.S. Department of Commerce.

Global competition, changing technology, worker productivity, and consumer preferences for more services have shifted employment opportunities toward the service-producing sector. The Montana historical trend parallels the U.S. historical trend. Apart from cyclical fluctuations, these trends represent fundamental structural changes in employment opportunities which can be expected to continue through the decade of the 1990s.

d. Changes in composition of personal income--a new industry?

Momentous as it has been, the shift in Montana's industrial sector employment profile has not been the only major structural change of the last several decades. The **composition of personal income**--the proportion of Montana income derived from "earned" sources such as labor and proprietors' income, versus the proportion coming from "unearned" sources such as dividends, interest, rents and transfer payments--has also changed dramatically.

The table following this section illustrates the transformation that has occurred, and compares Montana to the U.S. on components of income.

In 1960, unearned income constituted 23.1% of all Montana personal income. The corresponding U.S. figure was 20.4%. By 1990, 39.7% of all income in Montana was derived from dividends, interest, rents and transfer payments (such as social security and medicare)--a 72% growth in this category, over the 30-year period. The U.S. figure had also increased, though not quite so dramatically, to 32.5%

This revolutionary shift--a near doubling of the share of one income component--must be understood and accommodated in our forecasting of and planning for the future.

The nearly 40%, or \$4.6 billion dollars of 1990 Montana income drawn from dividends, rents, interest and transfers was over seven times farm/ranch earnings that year (both proprietors and labor taken together); it was 2.7 times larger than earnings from mining, timber and other manufacturing, construction and farming/ranching combined.

Even the entire service-producing sector, yielding \$4.3 billion in 1990, could not quite match that year's unearned personal income stream.⁹

Most dividends, interest, rents and transfers accrue to older rather than younger citizens--particularly to the wealthy (who are also entitled to social security and medicare) and to retirees. In this sense, the massive structural income change recorded in the Components of Personal Income table can be understood as tracking the growth of a new "industry" that, like tourism, is outside the bounds of the standard industrial classification categories, and beyond the horizons of conventional economic development planning in Montana: the retirement industry.

With its \$4.6 billion, rapidly-growing income stream--compared to \$760 million in 1990 nonresident travel expenditures--the retirement industry can be thought of as the iceberg of which tourism is the visible tip. Growth in both tourism and retirement are driven by the maturing of the U.S. population, and both are attracted to similar, high-amenity locations.

What can be said of the future of unearned income and retirement, conceived as an industry?

⁹Goods-producing sector personal income (labor and proprietor), 1990, in millions: mining--\$698; construction--\$410; manufacturing/timber/lumber--\$665; farming/ranching--\$354; TOTAL goods-producing--\$1,671.

Service-producing sector personal income (labor and proprietor), 1990, in millions: transport/communications/utilities--\$698; wholesale trade--\$407; retail trade--\$962; finance/insurance/real estate--\$318; general services--\$1,864; TOTAL service-producing--\$4,249.

All figures from US Dept of Commerce, Bureau of Economic Analysis.

In large part, unearned income streams are simply the return on personal wealth and entitlements accumulated by the middle-ageing baby boom generation and their immediate elders. As this demographic bulge moves upward in age category (the oldest baby-boomers turned 43 in 1990), we can expect the proportion of income from this source to continue to increase rapidly--although bear markets in rental values, corporate dividends and interest rates, and restrictions in growth of federal entitlements are forecast to dampen the growth over the next few years.

To the extent that age distribution in Montana mirrors the national trend, growth in Montana unearned incomes will also.

The table below compares Montana and U.S. age distributions in five broad categories, 1970 to 1990. Between 1970 and 1980, the 18 to 44 year-old category jumped 5.6% in the U.S. and fully 8.0% in Montana, as the oldest baby-boomers matured from 23 to 33 years of age. The 45 to 64 year-old category has remained relatively flat, even declining slightly as it awaits the arrival of the boomers. But even in advance of that arrival, the full-retirement category--65 years plus--has increased from 9.8% to 12.6% in the U.S., and from 9.9% to 13.3% in Montana.

We see little evidence of relative loss of population in the most economically-productive age group, as the 18 to 44 year-old category in Montana grew in tandem with that category in the U.S. at large. However, we do see what may be evidence of an increasing preference for Montana as a retirement location, as the Montana proportion in the 65-plus category grew to exceed the U.S. proportion by nearly a full percentage point, in 1990.

The implications for Montana's future, given the size and growth of income in this category, may be large indeed. There appears to exist the potential for a forward-looking industry (the producers of retirement housing, elder recreation, medical and other goods and services targeted to this market) to create a self-financing promotional effort on the scale and model of Montana's tourism program.

AGE CATEGORY	1990 MT	USA	1980 MT	USA	1970 MT	USA
Under 5 years	7.4%	7.4%	8.2%	7.2%	8.2%	8.4%
5 to 17 years	20.3%	18.2%	21.3%	21.0%	28.3%	25.8%
18 to 44 years	40.0%	43.2%	41.4%	40.9%	33.4%	35.3%
45 to 64 years	18.9%	18.7%	18.4%	19.6%	20.3%	20.6%
65 years and over	13.3%	12.6%	10.8%	11.3%	9.9%	9.8%

The number of Montanans living in the state increased about 1.25 percent per year during the 1970 to 1980 period, compared to the U.S. population average of 1.10 percent per year. However, between 1980 and 1990 the state's population rose only 0.13 percent per year compared to 0.94 percent per year for the U.S. Montana's population in 1970 was 694,409; in 1980, 786,690 and in 1990, 799,065.

e. Some Causes and Implications of Structural Change

It is not our purpose to prescribe a fixed set of policy responses to the structural changes documented above. The intent of this economic analysis has been, instead, to present a selection of some of the most crucial and dramatic facts about the performance and evolution of Montana's economy in the last half of this century, as a context for debate and decisions by the citizens of this state about their common future in the first half of the next century.

The responses of over 870 Montanans who were presented with a summary of these facts in 29 town meetings held this Spring are summarized in the Public Response section, beginning on page 36. That section also reports the results of a random telephone survey designed to probe in even greater detail into visions, values, issues and priorities identified in the town meetings.

Accordingly, we will propose here only a few general ideas about the causes and consequences of structural change--interpretations which the Council and its consultants believe are firmly based on the data and the history reviewed in the course of our work.

First, as to causes: we believe that a key prerequisite for planning to deal with these changes is to recognize that they are long-term and directional, rather than short-term and cyclical in nature. The traditional response of Montanans, harking back to the history of the first half of this century, has been to view downturns as cyclical. This school of thought says, "Just hold on. Things will come back again."

But, as Phillip Burgess of the Center for the New West has noted, many of the so-called "downturns" in Montana's economy are the result of permanent worldwide changes in the structure of supply and demand for many of the products of the western United States. For example:

- The changing structure of *agricultural export markets* as a result of the Green Revolution--with countries such as China and India now exporting food.
- Also, there is the changing structure of *supply for mineral products* -- as recycling and new technologies create replacement products and substitute materials in areas where only a few years ago we were told we were running out.
- And again, there is the changing *structure of demand* -- as downsizing of automobiles and the substitution of new materials (such as fiber optics for copper lines) uses fewer units of the materials traditionally produced in the rural areas of the West.

In addition, Alvin Toffler, author of *Powershift*, argues that the most important economic change in this decade has been the rise of a new system for creating wealth, based upon the "power of the mind"--people acting on information and information acting upon people. To quote from Toffler: "The spread of this new knowledge economy is, in fact, the explosive

new force that has hurled the advanced economies into bitter global competition, confronted the socialist nations with their hopeless obsolescence, forced many developing nations to scrap their traditional economic strategies, and is now profoundly dislocating power relationships in both personal and public spheres." [Toffler, *Powershift* NY: Bantam, 1990, p. 9]

Second, as to consequences: much of the data presented above illustrates the historical shift away from Montana's traditional resource-based, commodity-producing industries and toward a service and knowledge-based, specialty-production economy. The income composition numbers highlight a powerful companion shift toward earnings derived from a new and unconventional "basic" industry: retirement.

We want to emphasize, in the strongest possible terms, that this information does not indicate that our traditional industrial base will shrink in numbers of jobs and dollars, or cease to play a main and essential role in Montana's future. The information at hand indicates only that the traditional industrial base is providing a smaller proportional share of incomes and employment in an expanding overall economy.

The natural resource industries will remain large, important and viable industries in Montana, and any realistic plan for the future must include a leading role for our traditional "big three:" agriculture, mining and lumber. But at the same time, the historical record and the global dynamics driving the structural changes we have reviewed make it clear that these industries will not be the source of the next round of long-term growth in employment and incomes.

The "big three" can be looked at as a foundation, as a stepping stone to investment, diversification and growth in progressively more specialized, value-added and knowledge-intensive markets. What we want to emphasize here is that the traditional industrial base is a stepping stone, not an escalator. It is clear that we will not be carried effortlessly into a future of growing jobs and income, if we just stand still on this base.

The transition already under way from a goods-producing to a service-producing economy directly affects Montanans in several ways. The number of quality-paying jobs available in Montana's traditional industries can be expected to continue in slow growth at best, as these firms streamline operations to insure that their companies remain profitable.

In the future, the natural resource sectors that have historically been growth sources for Montana's economy will also contribute a smaller share of state and local taxes, thus intensifying the erosion of Montana's already limited tax base. The result of such shifts in the tax base, if we do not adjust our tax structure to draw on the more rapidly-growing sectors, may make it extremely difficult for state and local governments to sustain the level of services which have been provided in the past.

As structural transitions continue to affect the national and state economies, their impacts will ultimately move the U.S. economy beyond mass production toward increasing customization, beyond mass marketing and distribution towards niches and micro-marketing, beyond the monolithic corporation to new forms of organization, beyond managed trade between nation-states to operations that are both local and global, and away from manual labor, toward mental labor.

Montana's economy, in general, will be under pressure to respond in similar ways to the effects of these global structural transitions.

CHANGES IN MAJOR COMPONENTS OF PERSONAL INCOME MONTANA VS. THE UNITED STATES (1000s OF DOLLARS)

UNITED STATES		1960	1970	1980	1990
TOTAL PERSONAL INCOME		405,658,000	824,823,000	2,259,383,000	4,649,706,000
FARM INCOME	1/	6.04%	3.98%	1.45%	1.88%
LABOR INCOME	2/	69.36%	70.06%	66.80%	64.55%
PROPRIETORS' INCOME	3/	12.64%	9.66%	7.62%	7.82%
UNEARNED INCOME		20.35%	23.64%	29.50%	32.46%
DIV., INT., & RENT		13.08%	13.38%	15.24%	17.69%
TRANSFER PAYMENTS	4/	7.27%	10.26%	14.26%	14.77%
MONTANA		1960	1970	1980	1990
TOTAL PERSONAL INCOME		1,393,080	2,226,767	6,879,179	11,708,850
FARM INCOME	1/	19.95%	24.40%	1.45%	5.16%
LABOR INCOME	2/	59.74%	64.12%	61.25%	53.16%
PROPRIETORS' INCOME	3/	19.92%	22.65%	9.61%	11.79%
UNEARNED INCOME		23.08%	27.62%	33.10%	39.66%
DIV., INT., & RENT		14.32%	15.49%	18.07%	19.75%
TRANSFER PAYMENTS	4/	8.76%	12.13%	15.03%	19.91%

1/ Includes both labor and proprietors' income earned in farming.

2/ Includes both farm and nonfarm labor income.

3/ Includes both farm and nonfarm owners income.

4/ Largest element of transfers are Social Security and Medicare.

UNITED STATES DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS.

09/92

D. PROGRAM AND POLICY COMPARISONS

In addition to a review of economic development programs operated by the Montana Department of Commerce, NASDA contacted economic development agencies in the four neighboring states of Idaho, South Dakota, North Dakota, and Wyoming, to compile comparative information on business financing programs, types of taxes, tax exemptions, abatements and incentives, and business assistance programs in the five-state region. Findings are summarized in matrix form in the following four tables.

There are some niches that are not yet served; and these listings provide no indication whether or how effectively the services reach their target markets. In general, however, Montana now appears to offer a relatively full menu of finance programs and business assistance services, compared to the four contiguous neighbor states.

Table I
BUSINESS FINANCING PROGRAMS IN NEIGHBORING STATES

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
FEDERAL PROGRAMS					
SBA 7A .....	..... X	..... X	..... X	..... X	..... X
SBA 504 .....	..... X	..... X	..... X	..... X	..... X
FmHA Business & Industry Loans .....	..... X	..... X	..... X	..... X	..... X
EDA Loans/Grants .....	..... X	..... X	..... X	..... X	..... X
HUD-Community Development Block Grant .....	..... X	..... X	..... X	..... X	..... X
BIA .....	..... X	..... X	..... X	..... X	..... X
JTPA .....	..... X	..... X	..... X	..... X	..... X
STATE PROGRAMS					
Direct State Loans .....	.....	..... X	..... X	..... X	..... X
Revolving Loan Funds and Grants					
Construction .....	.....	..... X	..... X	..... X	..... X
Working Capital .....	.....	..... X	..... X	..... X	..... X
Equipment .....	.....	..... X	..... X	..... X	..... X
Land Reuse .....	.....	.....	.....	.....	.....
Energy Conservation .....	.....	.....	.....	.....	..... X
Facilities Renovation/Reuse .....	.....	.....	.....	.....	..... X
Microbusiness .....	.....	..... X	..... X	..... X	.....
Agribusiness .....	.....	..... X	..... X	..... X	.....
Value-added .....	.....	..... X	..... X	..... X	..... X
Industrial Park Roads .....	.....	.....	.....	..... X	.....
Technology Funds					
Seed/Venture Grants & Loans .....	.....	..... X	..... X	.....	.....
Product Development .....	.....	.....	.....	.....	..... X
Commercialization .....	.....	..... X	..... X	.....	..... X
University Research Centers .....	.....	..... X	..... X	..... X	..... X
Venture Capital Funds .....	.....	..... X	..... X	.....	.....
Linked Deposit Programs .....	.....	..... X	.....	.....	..... X
Loan Guarantees .....	.....	..... X	.....	..... X	..... X
Bank Participations .....	.....	..... X	..... X	.....	.....
Secondary Market Purchases .....	.....	..... X	.....	.....	.....
Industrial Dev. Revenue Bonds (IRB) .....	..... X	..... X	..... X	..... X	..... X
Industrial Dev. Bond Guarantees .....	.....	.....	..... X	.....	.....
General Obligation Bonds (GO) .....	..... X	.....	..... X	.....	.....
Statewide Authorities .....	.....	..... X	.....	..... X	.....
Other					
Tax Increment Financing .....	..... X	..... X	.....	..... X	.....
Private Development Credit Corp. ....	.....	.....	.....	.....	..... X
Small Business Investment Corp. (SBIC) ..	.....	..... X	.....	.....	.....

TABLE II
TAXES OF NEIGHBORING STATES

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
Travel & Convention Hotel/Motel . . . . .	..... X	.....	.....	.....	.....
Hotel/Motel Room . . . . .	..... X	..... X	.....	.....	.....
Income					
Corporate Net Earnings . . . . .	..... X	.....	..... X	.....	..... X
Corporate License . . . . .		..... X	.....	.....	.....
Personal . . . . .	..... X	..... X	..... X	.....	.....
Sales/Use . . . . .	..... X	.....	..... X	..... X	..... X
Real Property . . . . .	..... X	..... X	.....	..... X	..... X
Personal Property . . . . .	..... X	.....	.....	.....	.....
Business Property (Mach, Equip, Furn) . . .	..... X	..... X	.....	.....	.....
Business Inventory . . . . .	.....	.....	.....	.....	.....
Business Privilege . . . . .	.....	.....	..... X	.....	.....
Severance . . . . .	..... X	..... X	..... X	.....	.....
Fuel ¹ . . . . .	..... X	..... X	.....	..... X	.....
Special Fuels . . . . .	..... X	.....	..... X	.....	.....
Electricity . . . . .	..... X	.....	.....	.....	.....
Other	.....	.....	.....	.....	.....
Tobacco & Cigarette . . . . .	..... X	..... X	..... X	.....	.....
Wholesale Liquor . . . . .	.....	.....	..... X	.....	.....
Beer & Wine . . . . .	..... X	.....	.....	.....	.....
Illegal Drug Stamp . . . . .	..... X	.....	.....	.....	.....
Mine License ² . . . . .	..... X	..... X	.....	.....	.....
Metal mines ² . . . . .	..... X	..... X	.....	.....	.....
Gaming ³ . . . . .	..... X	..... X	..... X	.....	.....
Insurance Premium ⁴ . . . . .	.....	..... X	..... X	.....	.....

¹ MT - sales tax imposed at time of delivery.

² MT - covered by severance taxes.

³ MT - percent of gross proceeds.

⁴ MT - percent of net taxable premiums.

TABLE III
TAX EXEMPTIONS, CREDITS, AND ABATEMENT INCENTIVES OF NEIGHBORING STATES

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
Exemptions on:					
Business inventories .....	.... X	..... X	..... X	.....	.....
Livestock .....	.... X	..... X ⁵	.....	.....	.....
Stored property in transit .....	.... X	..... X	..... X	.....	.....
Pollution control facilities .....	.... X	..... X	.....	.....	..... X
Household belongings & clothing .....	.... X	.....	.....	.....	.....
Property licensed motor or recr.vehicles .....	.... X	.....	.....	.....	.....
Property of religious, fraternal & educational facilities .....	.... X	..... X	.....	.....	.....
Corporate income .....	.....	.....	..... X	.....	..... X
Goods in transit .....	.....	..... X	..... X	.....	..... X
Industrial machinery & equipment .....	.....	.....	.....	.....	..... X
Industrial fuels & raw materials .....	.....	.....	..... X	.....	..... X
Qualified business incubators & industrial parks .....	.....	..... X	.....	.....	.....
Corporate license tax for first time R&D firms .....	.....	..... X	.....	.....	.....
Investments in Small Business Investment Corporations, certified capital companies and domestic international sales corporations .....	.....	.....	.....	.....	.....
Tax credits for:					
elderly/disabled persons .....	.... X	.....	.....	.....	.....
job creation .....	.....	.....	..... X	.....	.....
investment .....	.....	.....	..... X	.....	.....
research & development .....	.....	..... X	..... X	.....	.....
indian industries .....	.....	.....	..... X	.....	.....
sales/leases of enterprises to beginning businesses .....	.....	.....	..... X	.....	.....
fuel conservation .....	.....	..... X	..... X	.....	.....
property (renewable resource systems) corporation-license-tax wage credits for new/expanding manufacturers .....	.....	.....	.....	..... X	.....
investments in certified capital company .....	.....	..... X	.....	.....	.....
investments in wind-powered electrical generating equipment .....	.....	..... X	.....	.....	.....
sale of land to beginning farmers .....	.....	..... X	.....	.....	.....
expenditures on organic fertilizers made & used in-state .....	.....	..... X	.....	.....	.....
machinery/equip. for mnfct & process agric. ....	.....	.....	..... X	.....	.....
Tax Abatements/Reductions for:					
local-option property tax assessments .....	.....	..... X	..... X	..... X	.....
state property tax assessments .....	.....	..... X	..... X	.....	.....
natural resource related severance taxes .....	.....	..... X	..... X	.....	.....

⁵ MT - except for swine, livestock less than 24 months of age are exempt.

TABLE IV
NEIGHBORING STATE BUSINESS ASSISTANCE PROGRAMS

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
TECHNICAL ASSISTANCE					
Business planning	X	X		X	X
Value-added processes			X	X	X
Technology commercialization		X	X		X
Patent searches & assistance	X	X			
SBIR technical assistance		X			
Business retention/expansion	X	X		X	
Producer networking		X			
Marketing	X	X	X	X	X
Trade Show organization/training	X	X	X	X	X
"Made-in State" promotion		X		X	X
Agricultural marketing		X		X	X
Product development/marketing			X		X
Product brokering			X		
Buyer-Seller matching system	X				
Government procurement/contracting	X			X	X
Business licensing info/assistance	X	X		X	X
Small Business Development Centers	X	X	X	X	X
Business legal assistance					
Business tax planning assistance					
Data management	X	X		X	X
Business location/site selection	X	X		X	
Census & economic information	X	X		X	X
Industrial production design/engineering		X			
State/university owned industrial parks		X			
Business Improvement Districts			X	X	
Financial packaging		X	X	X	
EPSCORE assistance					X
INDUSTRIAL TRAINING		X	X	X	
TOURISM PROMOTION					
General Advertising & Promotion	X	X	X	X	X
Convention Promotion	X	X			
Tourism hosting program-community training		X			
Film promotion	X	X			
INTERNATIONAL TRADE	X	X	X	X	X
BUSINESS REPORTS, PERMITS & LICENSES	X	X	X	X	X

E. HISTORICAL COMPARISONS: 1992 VERSUS 1982

One decade ago, the State of Montana published a major economic analysis and policy review entitled *The Montana Economic Development Project*. That report contained some 60 pages of charts detailing Montana's economic performance: comparisons of job and income growth with neighbor states; indicators of social welfare; forecasts of future growth; business-climate assets and liabilities; major natural resources; utility, land, labor, and transportation costs; labor availability and value-adding performance; capital availability and formation; tax base and tax balance; economic development budget and programs; public program recommendations; and other economic development information.

The appendix to this report presents selected charts (based upon availability of comparative data to that of McKinsey & Company, Inc.), comparing present-day facts and statistics with those provided in the 1983 report.

F. BUSINESS NEEDS ANALYSIS ¹⁰

On August 4, 1992, Rick Carlisle and Mitch Horowitz presented preliminary findings from the concurrent Corporation for Enterprise Development's (CfED) "Entrepreneurial Action Project." Funded by the Northwest Area Foundation, the study involved a review of the business performance and business service delivery and needs.

CfED's funding for the study was limited to a single labor market area in Montana. The 14-county area surrounding Great Falls was chosen for the study in consultation with the Montana Department of Commerce. No single region can fully represent a state as diverse as Montana; but this region was selected as embodying many characteristics both of the western mountains and the eastern plains, while incorporating one of Montana's two Metropolitan Statistical Areas.

The following summarizes the key priorities and issues identified through the analysis, and refined in the August 4 discussions with local economic development leaders.

1. Priority Issues Identified. Three priority issues were identified, based on the results of the analysis and the discussions.

- Generating new investment in value-added agriculture in the Great Falls region.

Agricultural services has been one of the few growth areas for the regional economy, and agriculture continues to be an important source of income. Adding value through further processing and packaging of food and other products could offer a competitive niche for the region, if new investment can be generated.

¹⁰Adapted, with permission, from memos and draft reports prepared by Rick Carlisle, CfED, and from the draft report *Great Falls Region--Understanding Your Enterprises: Preliminary Results* (CfED, August 4, 1992).

- Identifying new markets for enterprises currently focusing on local markets.

Most of the firms surveyed identified their major markets and major competitors as lying within a 50 mile radius. With the potential reduction in demand for military goods and services, with the growing importance of Canadian tourists and markets, and with increasing global competition, greater awareness of wider markets is essential.

- Retention of the existing basic manufacturing base.

At an average owner age of 54, fully 40% of basic manufacturing enterprises in Great Falls indicated they anticipated getting out of business or selling out within 10 years. A key issue in the long-term development of the Great Falls region is creating a replacement generation of basic-industry entrepreneurs, including means for facilitating ownership succession (such as ESOPs) as well as finance for new startups and acquisitions of existing firms.

2. Summary of Key Findings of Survey.

a. Profile of Enterprises in the Great Falls Region

- Great Falls businesses--similar to those across the state--tend to be smaller and more often locally owned, in comparison to the nation.
- Despite the smaller size of Great Falls businesses, a fair number generate sales over \$500,000 and are organized as corporations.
- Many Great Falls businesses are part of the "hidden" economy--being home-based and/or seasonal businesses. This is particularly the case for start-up firms.
- It took less than \$25,000 for more than 4 of 10 recent basic businesses to get started in Great Falls, demonstrating the microenterprise nature of new business starts in Great Falls. Among recent non-basic start-ups, the amount of money needed to get started was typically in the \$50,000 to \$75,000 range.
- The predominant reasons for Great Falls residents to start a business are driven by choice (had a business idea or wanted to work for themselves), although a considerable number of businesses were started in order for local residents to earn more money.
- Great Falls businesses appear to be "sheltered"
 - A high percentage of customers are located within 50 miles, including basic firms.
 - Competitors are more likely to be seen within the local areas than outside the local area.
- Government is a key customer for Great Falls businesses, probably showing the importance of federal (military) procurement.

- Great Falls business owners are predominantly men, middle aged, well educated, and with income well above poverty levels, generally earning most of their income from the business.
- Recent business start-ups are nearly as likely to be owned by women as men.
- A large minority of business owners have income from other business ventures or from other members of the family working.

b. How Well are Great Falls' Enterprises Performing?

Births and Deaths of Firms

- A considerable number of births and deaths of businesses occurred in the Great Falls region over the decade from 1978 to 1988.
- Small locally owned firms made up the majority of births and deaths, though branch plans comprised a substantial minority.
- Great Falls lagged the state and nation in the ratio of locally owned births to deaths, but performed very well in the ratio of branch plans births to deaths.

Sales and Profits Growth

- While a majority of businesses recorded sluggish sales and profit growth over the past five years, a quarter to a third of the businesses enjoyed robust growth.

Business Advantage/Disadvantage Over Competitors

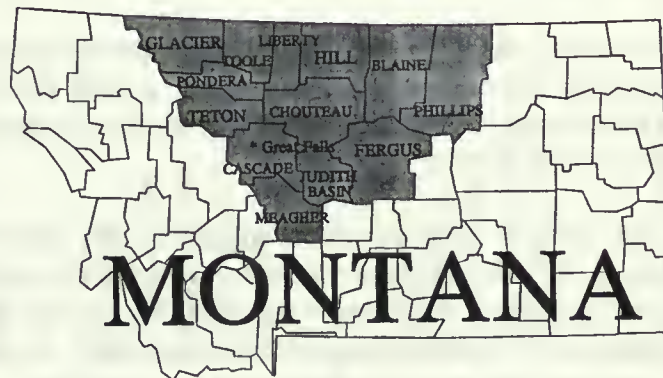
- Preparing loan packages are seen as key business problems across the spectrum of businesses in the Great Falls region.
- Other key business problems for specific types of businesses (at least 30% indicated as a problem) include:
 - developing marketing strategy--start-up non-basic and basic
 - financial management--start-up non-basic
 - developing accounting systems--start-up non-basic and existing
 - structuring financing--start-up basic and non-basic and existing non-basic

Business Plans for Future

- The most frequently cited business plans are positive--improving net worth, sales, and profits.
- Large turnover is forecast for existing basic businesses where 40% plan to sell out and 20% to get out of business within 10 years. Average age of owners in the basic sector is 54 years.
- Most other Great Falls businesses expect to operate more than 10 years.

Business Financing

- Bank financing is a key source of funding for businesses in Great Falls, with the exception of non-basic start-ups.
- Lines of credit are the most common type of financing--less than half of businesses borrow for fixed assets.
- Local banks are the main source of bank financing.
- Few businesses are turned down--less than one-fifth of any type of business.
- Projected future uses of borrowed funds conflicts with current reported use of borrowed funds.
- Still, a substantial minority of start-ups reported they did not have sufficient capital when they started.
- More than a third of the businesses expect to borrow next year.
 - More than 50% want to borrow less than \$75,000.
 - Working capital and machinery/equipment financing tops the list for projected uses of bank financing (although this conflicts with current uses).



G. PUBLIC RESPONSE

Results from the public participation process involving 29 town meetings, a random-sample telephone survey, and mail surveys of Montana's public officials and business and community leaders are presented in this section.

1. TOWN MEETINGS

As the first major activity of the Montana Futures Project, a total of 29 town meetings were held all across the state in May and June, 1992, to identify key issues of concern to citizens--their views about the current economy and quality of life, as well as their desires and expectations for the future of the "last best place." Over 870 Montanans attended the three-hour-long meetings, which began with a short presentation of the consultant's economic analysis, followed by small group brainstorming sessions in which the participants answered the following questions.

Looking forward 20 years into the future:

1. What are the elements of your optimistic view of how you would like Montana to be?
2. What things have to happen for your vision to come true?
3. What are the greatest opportunities or strengths that we must take advantage of to realize the vision?
4. What are the greatest weaknesses or threats that we must overcome to realize the vision?

The Council believed strongly that the public should be approached first, with broad, open-ended questions such as the above, in order to define the general issues for more detailed questioning in a random sample survey--as opposed to having the issues and agenda pre-defined by a small leadership or expert group.

The meetings were organized in each town by local government officials, local development organizations, Chambers of Commerce and volunteer organizations such as the American Association of University Women, following a series of regional training sessions that prepared local facilitators for the small-group methodology used. A summary matrix of the five top responses from the town meetings follows on the next page.

Top Five Responses to Town Meeting Questions

SMALL TOWNS					WEST	
LARGE TOWNS					EAST	
STATEWIDE						
Clean environment Quality education Business-friendly climate Jobs to keep youth Balance, industry, environment	Clean environment Quality Education Business-friendly climate Jobs to keep youth Balance, industry, environment	Jobs to keep youth Clean environment Better employment Business-friendly climate Balance, industry, environment	Business-friendly climate Value-added products Develop tourism Jobs to keep youth Balance, industry, environment (clean environment = #13)	Clean environment Better employment Jobs to keep youth Balance, industry, environment Quality education (business-friendly = #6)		
Tax reform Attract business Planning and zoning Workers' Compensation reform Tax reform-sales tax	Tax reform Attract business Adequate education funding Planning and Zoning Tax reform-fairness	Tax reform Attract businesses Planning and zoning Workers' Compensation reform Less regulation	Tax reform Attract businesses Tax reform-sales Workers' Compensation reform Tax reform-for business (planning/zoning = #13)	Tax reform Planning and zoning Attract business Adequate education funding Quality education		
Natural resources Quality of life Use of resources Quality education Personal qualities	Quality education Work ethic Quality of life Natural resources Personal qualities	Natural resources Quality of life Use of resources Skilled workers Beauty of state (personal qualities = #6)	Natural Resources Use of resources Work ethic Quality of life Beauty of state	Natural Resources Quality of life Personal qualities Value-added products Quality education		
Poor tax structure Polarization/partisanship Workers' Compensation structure Short-term outlook Resistance to change	Polarization/partisanship Poor tax structure Short-term outlook Resistance to change Workers' Compensation structure	Poor tax structure Polarization/partisanship Workers' Compensation structure Out-of-state interests Resistance to change	Poor tax structure Workers' Compensation structure Polarization/partnership Too much regulation Out-of-state interests	Polarization/partisanship Poor tax structure Short-term outlook Resistance to change Lack of planning (Workers' Compensation = #6)		

Q1: Goals & Vision

Q2: What must happen

Q3: Strengths & Opportunities

Q4: Weaknesses & Problems

Question 1 = What are the elements of your optimistic view of how you would like Montana to be?

Question 2 = What things have to happen for your vision to come true?

Question 3 = What are the state's greatest opportunities and strengths?

Question 4 = What are the state's greatest weaknesses and problems?

2. TELEPHONE SURVEY

To follow up in greater detail on issues and concerns identified in the town meetings, 407 Montana citizens were interviewed, using a 20-minute telephone survey. Telephone numbers were randomly generated by computer, incorporating an appropriate gender and geographic balance. Interviews were conducted with residents in 97 communities ranging from Absarokee to Wolf Point. The majority of those sampled have lived in Montana for over 20 years and have at least a high school education. Margin of error for a sample this size is plus or minus 5%.

Most survey questions targeted individual opinions about opportunities, strengths, weaknesses and problems related to the Montana economy and the state's natural and social environment. Many questions asked Montanans to rate their responses using a scale of 1 ("poor" or "unimportant") to 5 ("excellent" or "very important"). In some instances, respondents were also asked whether issues or problems they had rated "very important" were or were not "immediately urgent," requiring action within two years or less.

QUALITY OF LIFE, AND GENERAL POLICY DIRECTION

The preservation of Montana's quality of life is a major concern. Overall, respondents rate their current quality of life as nearly a 4 on a scale of 1 to 5. (The average response was 3.95.) Montanans are torn between whether they believe the state is currently moving in the wrong (45.2%) or the right (35.9%) direction, in an overall sense. Almost 19% of those asked were undecided on the correctness of the state's current policy direction.

However, 58% interviewed believe that Montana's quality of life will decline over the next 20 years if things continue as they are currently--reinforcing the sense of concern with this issue, and emphasizing a perceived need for strong policy action.

Over 90% of respondents believe that it is important for Montana's economy to become stronger during the next 20 years. It is an operating assumption of the Governor's Council for Montana's Future that, to successfully strengthen Montana's future economy, economic policy must reflect the needs and solve the problems given highest priority and urgency by the citizens themselves. Early in the telephone questionnaire, Montanans were asked to identify what are the areas in which the state has the greatest problems. The top four answers in descending order of priority by the number of times mentioned by respondents are:

1. Unemployment
2. Tax structure
3. Worker's compensation
4. Social Services (i.e. health care, welfare, infrastructure, education, etc.)

GROWTH IN JOBS AND INCOME

When asked to broadly describe the greatest problems facing Montana, the most common response was unemployment. In combination with other responses on goals for economic policy, social services issues and specific employment/income objectives, it is clear that the identification of unemployment as a major problem is part of a broader concern about growth in jobs and income levels.

On a scale rating the importance of various goals for economic policy, goals were ranked in the following priority order:

<u>Average Rating</u>	
1. Growth in jobs and income	4.38
2. Stabilization and diversification of the economy	4.18
3. Preservation of the environment and a traditional way of life	4.10
4. Balance between job growth and environmental preservation	4.03

It should be noted that all the above goals were ranked "important," reinforcing the conclusion drawn earlier from town meetings on the economic future that Montanans want both job/income growth and a quality social and natural environment--not one as opposed to the other.

An emphasis on job creation and retention was also evident in a question posed to Montanans regarding future health care and social services. Reform of the current welfare system so as to move people into the job market was given the highest priority in this policy area, with nearly 64% of the respondents also giving this issue an "immediate urgency" rating.

During the 1980s, Montana's employment grew by 9%, about half the growth rate for the U.S. as a whole. Montanans were asked whether they prefer Montana's rate of employment growth in the next 20 years to be half as fast, just as fast, or faster than the U.S. rate. More than 86% of those responding believe the rate of employment should be at least as fast as the U.S. rate of growth.

Likewise, average per-capita income in the state of Montana in 1990 was only 80% of the U.S. average. Over 88% of those surveyed believe that during the next 20 years Montana's income should at least become equal to the national average.

As a qualifier to the support for growth, it is important to realize that Montanans appreciate their low population density and the high quality of life associated with it. Sixty-three percent of those surveyed believe that Montana's current population is the right amount to be living in the state, with an additional 9.6% maintaining that population is already too large; 24% of respondents believe there are too few people.

TAX STRUCTURE

"Tax structure" was listed as the second greatest problem facing Montana. Although the specific dissatisfactions and issues may vary, the overall attitude of many Montanans is that something must be changed or added to improve the state tax situation. Given the Council's focus on business development issues, the survey did not enter into questions concerning tax reforms for the purpose of balancing the state's revenues and expenditures. Several questions, however, probed attitudes about tax incentives and changes for business development purposes.

In general terms, 63.9% of those responding to the survey support efforts by the state government to offer tax incentives to encourage out-of-state businesses to relocate in Montana. An even greater percentage (84%) were in favor of tax incentives to promote startups and expansions of businesses within the state. The strong bias for assistance to in-state as opposed to relocating out-of-state business is reinforced when citizens are asked what programs merit a tax increase: "attracting outside business and industry" was ranked last, out of six categories mentioned; "Montana business creation and expansion" ranked third.

Future business-climate improvements in the form of business tax reductions were widely supported but not regarded as "immediate urgencies." However, tax reform is considered both a highly urgent (46.9%) issue and a highly important issue: on a scale of 1 (not at all important) to 5 (very important), Montanans view this issue to be a 4.4. This problem takes precedence over other state and local government policies whose urgencies were prioritized as follows: **reductions in government spending (46.4%)**; **reductions in bureaucracy and regulation (43.2%)**; **reductions in political partisanship (31.2%)**; and **improvements in land-use planning and zoning (28.5%)**. However, it should be noted that all goals were strongly endorsed as being important, none receiving a rating less than 4.

Despite the high priority assigned to reducing government spending in general, many Montanans say they would be willing to accept a tax increase for certain specific purposes, as illustrated in the table on the following page.

Those willing to bear the burden of additional taxation were asked to describe the type of taxes they would prefer. The sales tax received the most votes, with the excise tax as a distant second. Uses of taxes are ranked from left to right in the following table, in order of citizens' willingness to pay higher taxes for them.

Percentage of Respondents
Willing to Accept a State Tax Increase
by
Purpose of Tax and Type of Tax

Purpose of Increase	1. Education	2. Health Care & Social Services	3. Montana Business Creation & Expansion	4. Natural Resource Management	5. Infrastructure Investment	6. Outside Business Attraction
Total % Willing to Accept Increase	69.4%	53.8%	52.8%	44.1%	40.3%	34.2%
Type of Tax Preferred:						
Sales	32.2%	33.3%	33.5%	32.7%	39.7%	36.0%
Excise	17.7%	11.9%	14.9%	15.4%	20.1%	15.8%
Income	14.1%	18.7%	9.8%	11.1%	4.9%	9.4%
Property	10.6%	5.9%	5.1%	4.9%	7.2%	3.6%
Business	3.9%	4.1%	11.6%	4.9%	5.5%	9.4%
Other	5.8%	5.5%	6.1%	10.5%	7.3%	5.8%
Undecided	16.3%	20.6%	19.1%	20.4%	15.2%	20.1%

In summary, the view is that a tax increase would hurt least if revenues were generated through a sales tax and were targeted toward education, health care and social services, or targeted toward helping Montana business people start or expand businesses. It is also clear that, by overwhelming margins, Montanans reject an increase in property or business taxes for any purpose.

WORKERS' COMPENSATION and BUSINESS CLIMATE GOALS

On a scale of 1 (not at all important) to 5 (very important), the reduction of workers' compensation costs rates highest (at 4.13) among business climate goals, and also has the highest percentage rating this issue immediately urgent (36.61%). According to the over 400 respondents, workers' compensation is the single most important business climate issue, and the one that most requires immediate attention. In terms of priorities for business climate improvements, workers' compensation is followed (in order) by investments in infrastructure, improved access to financial capital, reduction of business taxes and reduction of regulations.

STABILIZATION/DIVERSIFICATION

In addition to lowering worker's compensation costs, Montana respondents recognize the importance of diversifying their economy to meet the challenges of a globalized market. According to the situational analysis of Montana's major industries (completed by the National Consulting Service of the National Association of State Development Agencies), Montana's basic industries include: agricultural services; farming; livestock operations; oil and gas extraction; coal mining; metal mining; non-metallic minerals mining; rail and other transportation; manufacturing (e.g. lumber and paper products and food processing); tourism; selected services; and federal government.

The respondents were asked to rate various industries in order of perceived importance to Montana's economic future. The following is a list of the top seven industries in order of expected importance and rated on a scale of 1 to 5 (with 5 as the highest):

Tourism	4.48
Farming and mining	4.41
Retail and wholesale operations	4.09
Lumber and wood products	4.02
Services	3.96
Export operation	3.95
Telecommunications and transportation	3.93

Montanans who answered the survey placed a strong emphasis on promoting and developing new and expanding businesses from inside Montana on all fronts: in terms of tax incentives, tax increases, allocation of existing budgets, and priorities for industry promotion and assistance. Asked to rank business assistance priorities, respondents placed "promoting and developing new and expanding business from inside Montana" first, followed (in order) by tourism, value-added products and recruiting new companies from outside the state.

ENVIRONMENT

Asked to prioritize environmental goals, respondents come up with a tie for first place on two issues: striking a balance between industry and environmental preservation, and reducing the influence of out-of-state forces on natural resource policy.

Generally, in regards to environmental issues, those surveyed did not display any clear consensus. Environmentalists and activist groups were mentioned by several respondents as being a significant problem in Montana, but preservation of the environment was also voted as a major concern. Of those surveyed, Montanans were split as to whether or not they would be willing to accept a tax increase to provide more funding for natural resource management and environmental preservation (44.1% voted yes, 53.2% voted no, and 2.7% were undecided). When Montanans were asked whether they would like to see funding in this area increase, decrease or stay the same the results were as follows: increase--2.5%; remain the same--34.9%; decrease--40.3%; undecided--22.4%.

SOCIAL SERVICES

The fourth problem area in order of priority listing by citizens of Montana is social services. These services include health care, welfare, housing, infrastructure and education. As part of the survey, Montanans were asked to assume that the state government had a fixed budget. Acknowledging this restraint, Montanans were asked to specify for which programs would they like to decrease funding; keep funding the same; or increase funding. The responses were:

	Decrease	Same	Increase	Undecided
Education	26.5%	64.1%	1.5%	7.9%
Health Care & Social Services	33.9%	44.0%	3.7%	18.4%
Help Montanans start or expand business	36.6%	54.3%	3.9%	5.2%
Infrastructure investment	46.0%	33.9%	6.9%	6.9%

Infrastructure received the strongest negative rating on this question, with almost 46% preferring a decrease from current budget levels.

As shown earlier in the table on page 41, many Montanans would accept a state tax increase to provide funding for education (69.5%, yes; 28.5%, no), health care and social services (53.8%, yes; 45%, no), and assistance to in-state businesses (52.8% yes, 45% no). However, in regards to local infrastructure investment, only 40.3% were willing to bear a tax increase. This unwillingness to make further investments in infrastructure was verified by the average importance ratings and moderate urgencies associated with improvements in individual infrastructure components [road system (20.6%), rail system (10.8%), sewer and water systems (16.2%), airport facilities (16.2%), telecommunications network (10.3%) and north-south Rocky Mountain Trade Corridor (11.8%)].

It should be noted that this result appears in conflict with the fact that Montanans just approved a ballot initiative (Treasure State Endowment) to greatly increase infrastructure spending. Perhaps the two are related: citizens may feel they have just taken a large step to improve infrastructure, and that nothing further is needed at present. Given the high priority assigned to infrastructure among business-climate improvement goals (see discussion under "Workers' Compensation"), no clear conclusion can be drawn, and further study in this area is strongly warranted.

In the area of education, the most important issue to those surveyed was the creation of a well-educated labor force. Of those who rated this issue as "very important", 42% rated it an immediate urgency. Other important issues include improving the quality of education in Montana and increasing innovative educational programs in schools, colleges, and universities.

Over 90% of those surveyed were high school graduates. According to the Montana Office of Public Instruction, in 1988 Montana had a high school graduation rate 22% higher than the U.S. as a whole. Nearly all of those surveyed would like to see this statistic at least remain constant, while 77.6% would like to increase the graduation rate still further in advance of national averages.

Despite this impressive percentage of high school graduates, over 40% of those responding to the survey did not get beyond high school. Over 70% did not attend more than 3 years of post high school education. It should be noted that these statistics are evenly distributed between males and females (e.g. 39.1% of all males surveyed did not study beyond high school compared to 42.7% of all females surveyed).

Montanans place high importance on health care and social services for the future of the state. On a scale of 1 (not at all important) to 5 (very important), the average responses to the following issues were:

- | | |
|---|------|
| • Reforming the welfare system to improve service and move people into the job market | 4.72 |
| • Making health care more accessible and affordable | 4.57 |
| • Reducing the cost of welfare programs | 4.09 |
| • Establishing universal health insurance | 3.90 |

Finally, nearly 74% of citizens believe it is "very important" for Montana's economy to be stronger in 20 years than it is now. Those surveyed would like local governments and the private sector to take the lead in the state's overall development, with state government and public/private partnerships playing a somewhat lesser role and federal government being the least important.

3. MAIL SURVEY

A total of 554 public officials (mayors, county commissioners, state legislators, and candidates for public office), key business executives, and community and organizational leaders received mail surveys to determine their perspectives about the development issues affecting their localities and regions. Sixty-five surveys were returned reflecting a 12% response rate (4% better than the average 8% response rate for mail surveys).

Respondents ranked the priority **development goals** for Montana and **development factors** (in descending order of importance) having positive, negative or no impacts upon the economic development occurring in Montana; respondents gave average ratings as to **Montana's performance regarding specific development initiatives** over the past 10 years, and ranked Montana's three most **important industries**. They also gave their perceptions about whether Montana possessed a pro-business climate and maintained a high quality of life for its citizens.

Of the 65 people responding, 78.5% do not believe that from an economic development perspective, Montana is effectively positioned to enter the 21st century. The remaining 16.9% do believe Montana is positioned appropriately, and 4.6% were undecided.

Given the Council's strong disposition toward basing the strategic plan on citizen rather than expert and leadership input, the mail survey and small group interviews primarily served the purpose of providing background information and familiarization for the project consultants.

II. DEVELOPMENT STRENGTHS AND WEAKNESSES

Responses from the town meetings, random sample telephone survey, mail survey and interviews with business and community leaders identified the following economic development strengths and weaknesses for Montana.

Key economic resources and development strengths inherent to the state include:

- Pristine environment and natural beauty.
- Strong work ethic and loyalty of labor force.
- Available supply of workers with high SAT/ACT scores who are trained in basic skills.
- Affordable and high-quality secondary, technical, and post-secondary education.
- Abundant quantities of affordable land for industrial development.
- Community-minded, rural-based lifestyle.
- Access to major national parks, recreation and wilderness areas.

- Abundant base of natural resources.
- Montana's image as the "last best place."

The following issues were identified as challenges or obstacles to development in Montana. Actions to overcome or resolve these constraints will provide new options and opportunities for economic development throughout the state.

- Diseconomies of small scale: with more than 82% of all firms employing fewer than 10 people, most Montana companies lack the scope and scale necessary to penetrate large external markets.
- Current tax structure appears incapable of financing needed investments in infrastructure, training, technology and education.
- The Workers' Compensation system is in deep crisis.
- Recruitment of new industries and residents to the state is inhibited by the perception of Montana's isolation and cold climate.
- Political partisanship, and polarization among groups, often result in legislative stalemate.
- Geographic remoteness from major markets, combined with low population density, makes Montana an unlikely site for headquarters or distribution facilities.
- Over-dependence on extractive commodity industries leads to "boom and bust" cycles and long-term structural decline.
- Lack of a comprehensive local business-support infrastructure (such as export-trade financiers and other finance specialists, patent expertise, venture-capital "dealmakers," and other specialized business-support services) inhibits expansion of entrepreneurial businesses.
- The independent mindset of Montana's citizens may obstruct awareness of interdependency and inter-relatedness with others in the state, as well as integration in the global economy.
- Short-term outlook and "quick fixes" often take precedence over long-term strategy and sustainability.

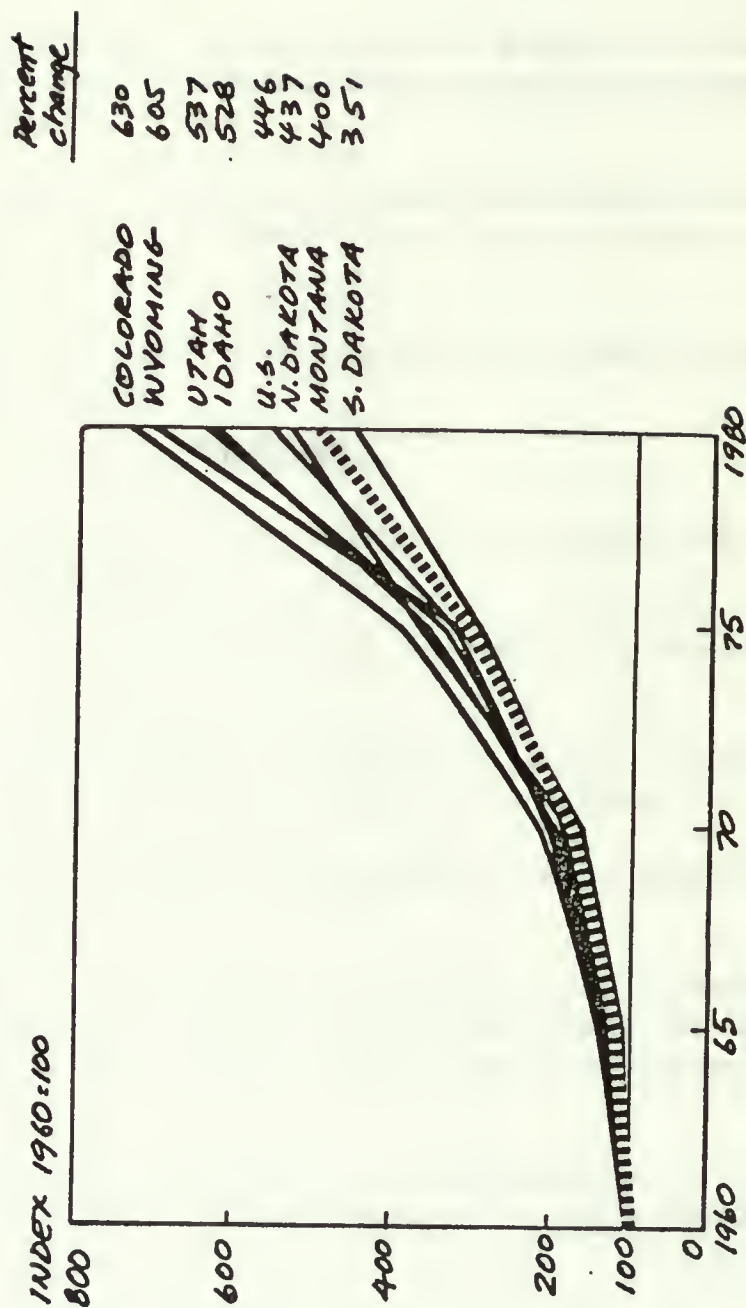
APPENDIX

A. ECONOMIC PERFORMANCE BELOW NEIGHBORS

1960-1980

Income growth in Montana has lagged behind the nation and most of its neighbors

GROWTH IN TOTAL PERSONAL INCOME 1960-80

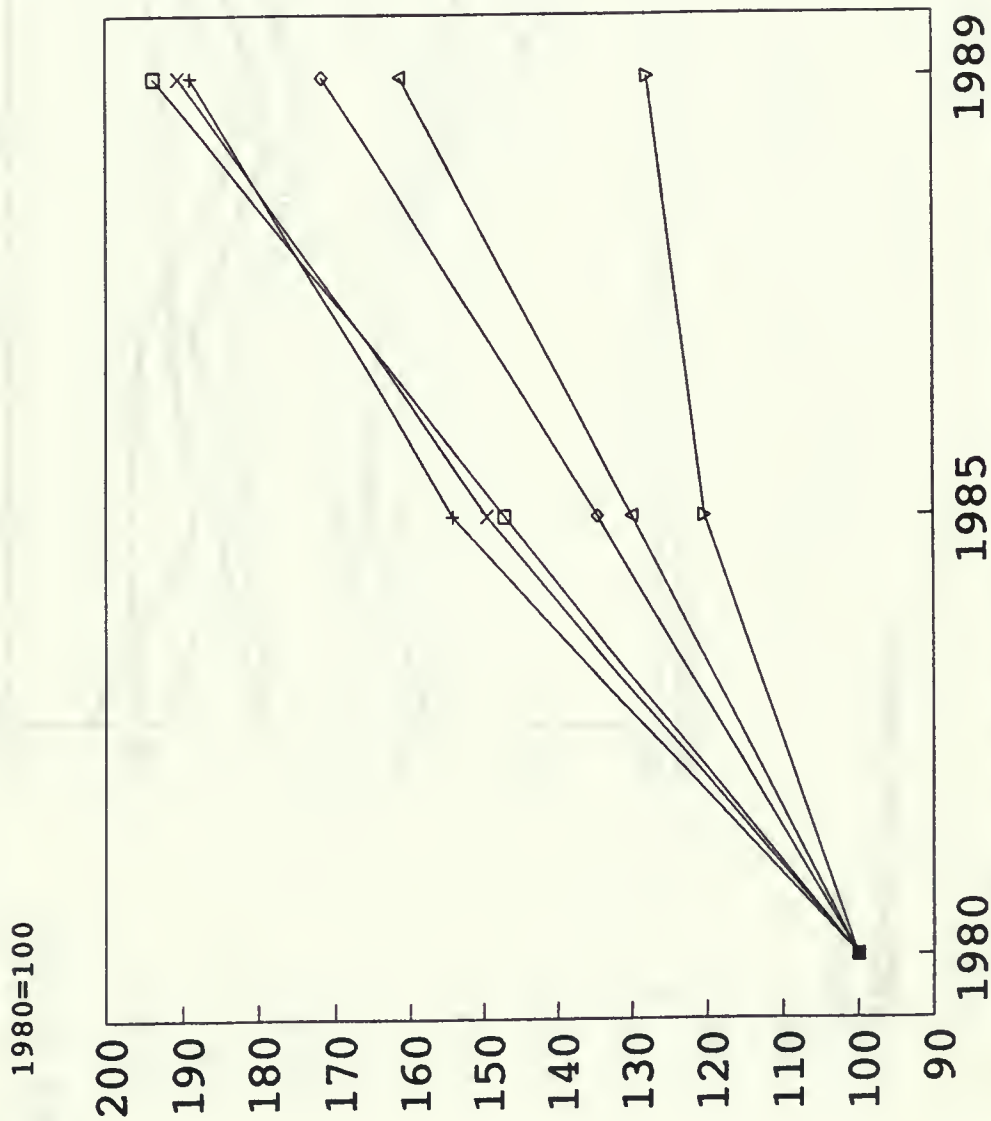


Source: Bureau of Economic Analysis, U.S. Department of Commerce

Montana income growth continued to lag both the nation and the region.

Growth in Total Personal Income 1980-1989

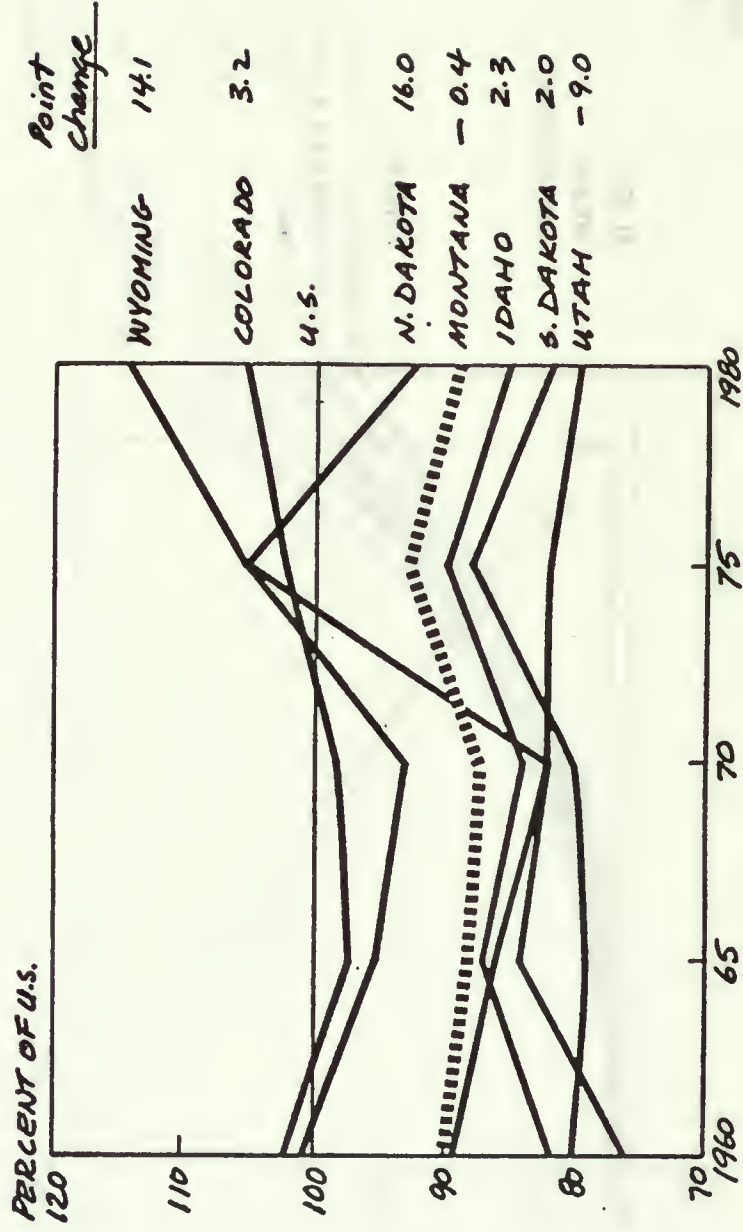
	Percent change
U.S.	94
Utah	91
Colorado	89
Idaho	72
Montana	61
Wyoming	28



Source: Bureau of Economic Analysis

On a per capita basis, Montana has about held its own relative to the nation - while most neighboring states improved their positions, some by significant degrees

INCOME PER CAPITA 1960-80



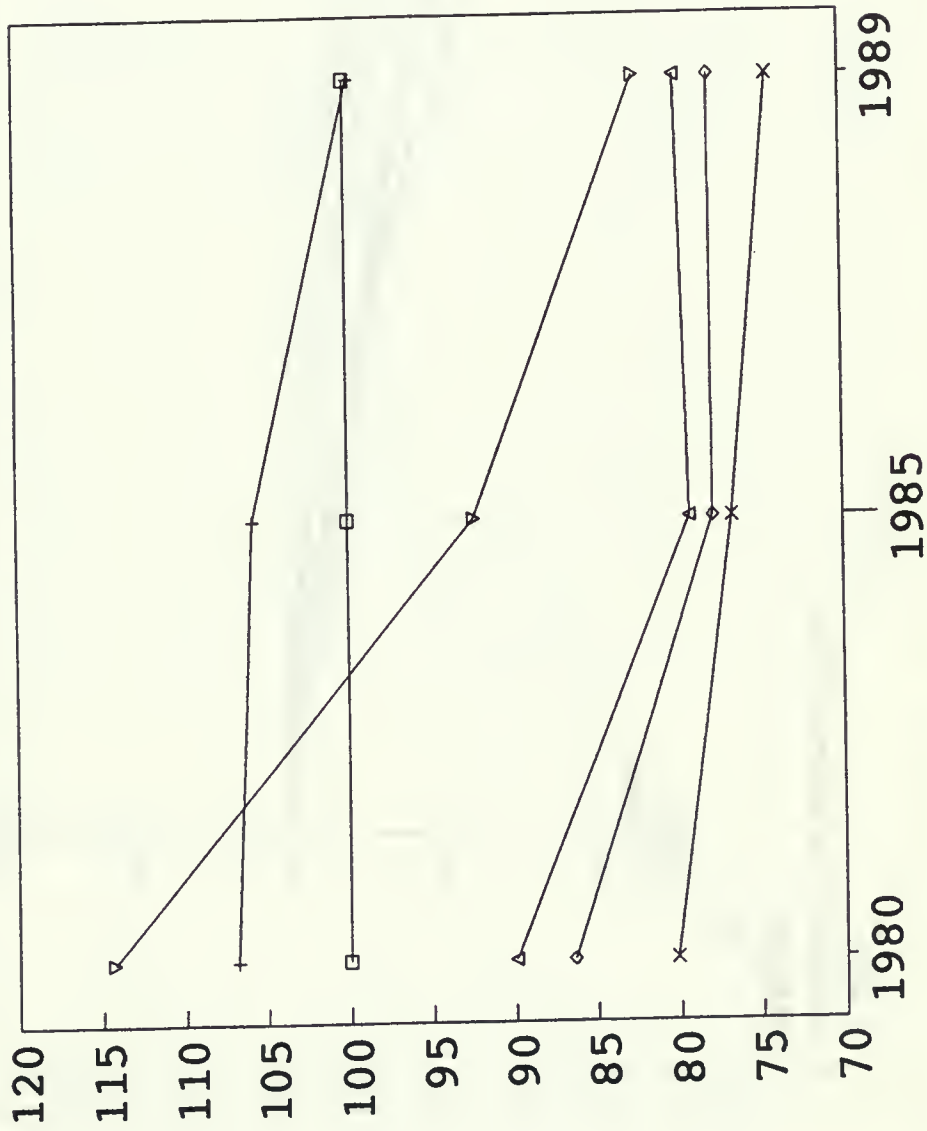
Source: Bureau of Economic Analysis, U.S. Department of Commerce

Montana per capita income dropped 10 points, from 90% to 80% of the national average. Among neighbor states, only Wyoming lost more.

Income Per Capita 1980-1989

Point
change

Percent of U.S.

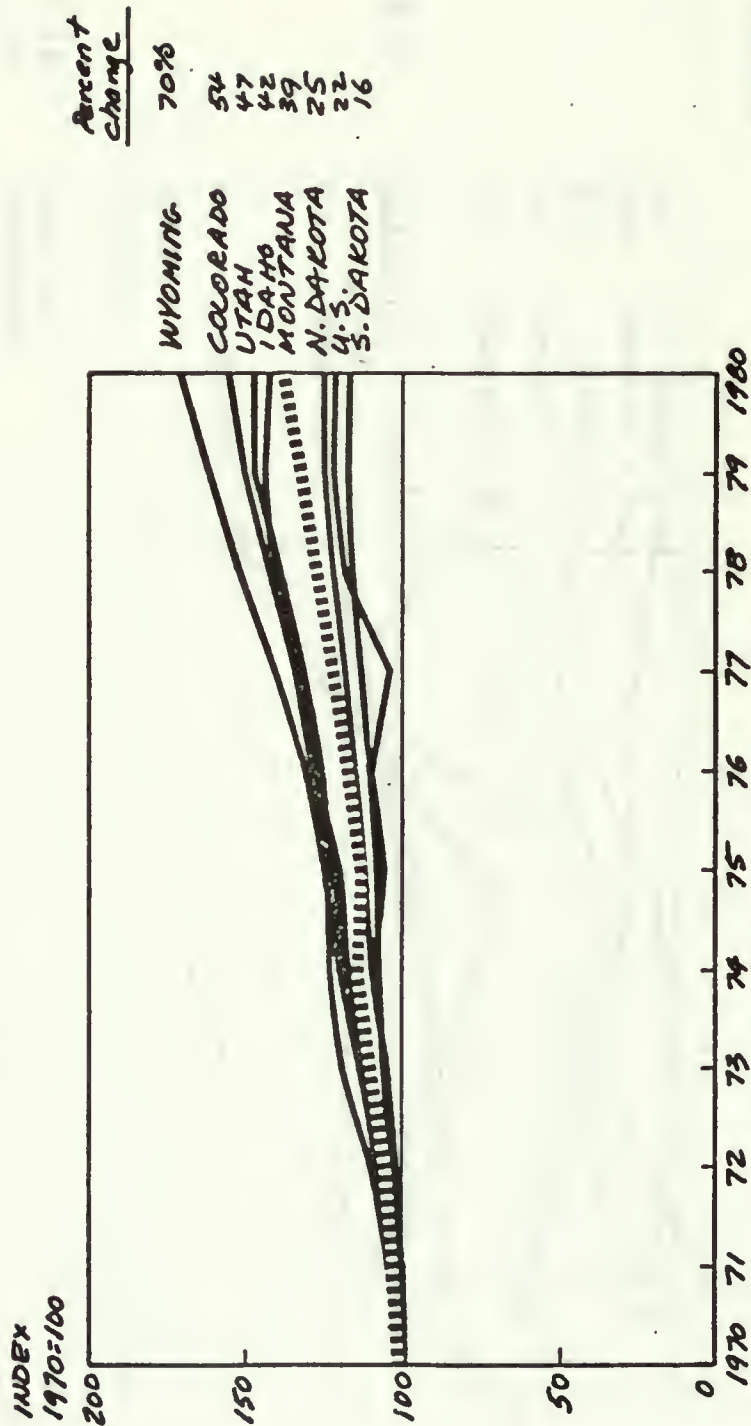


Source: Bureau of Economic Analysis

Employment growth in Montana has been lower than in most neighboring states

1970-1980

GROWTH IN EMPLOYMENT
1970-80



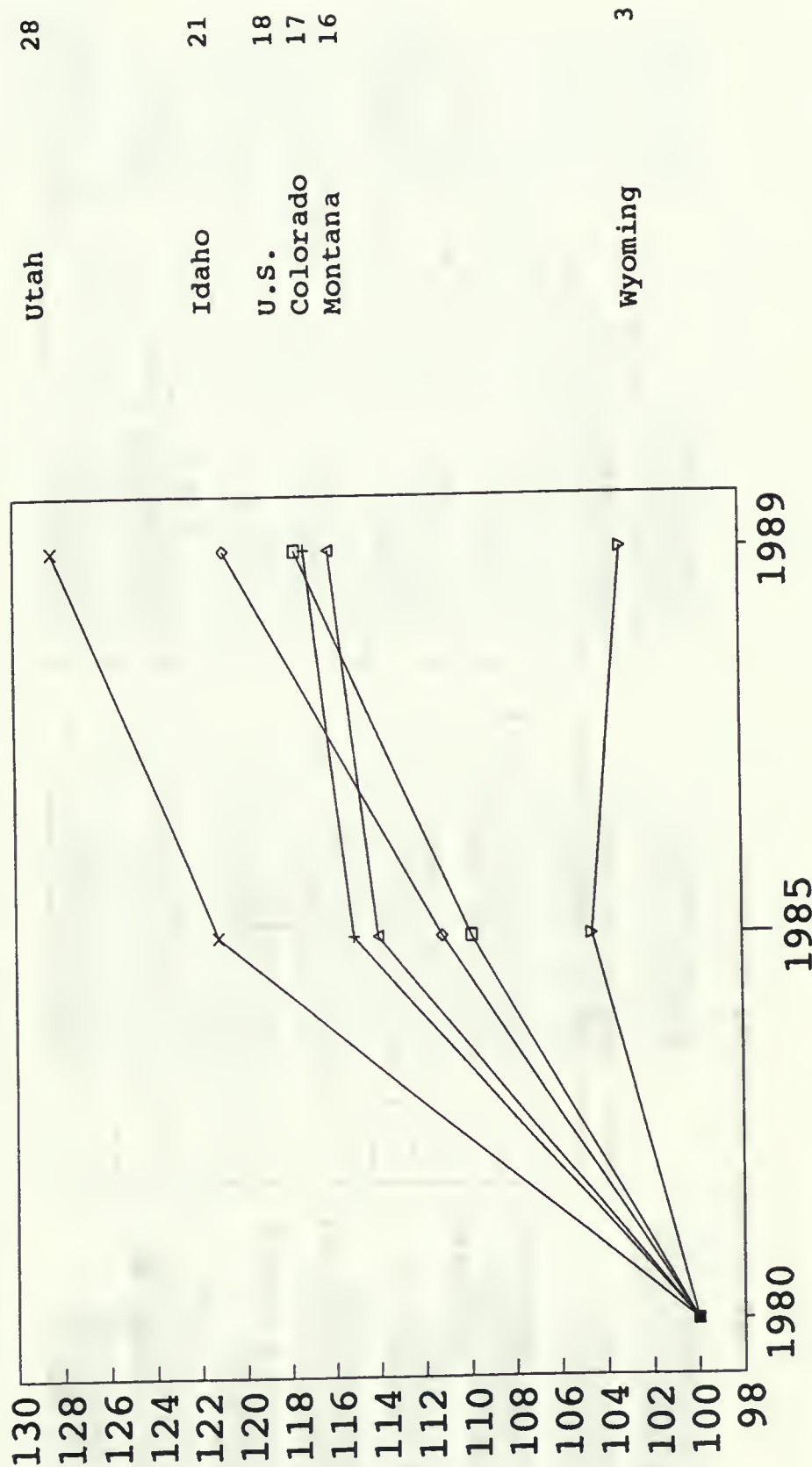
Source: Bureau of Economic Analysis, U.S. Department of Commerce

Montana's employment growth was about average for the region.

Growth in Employment 1980-1989

Percent
change

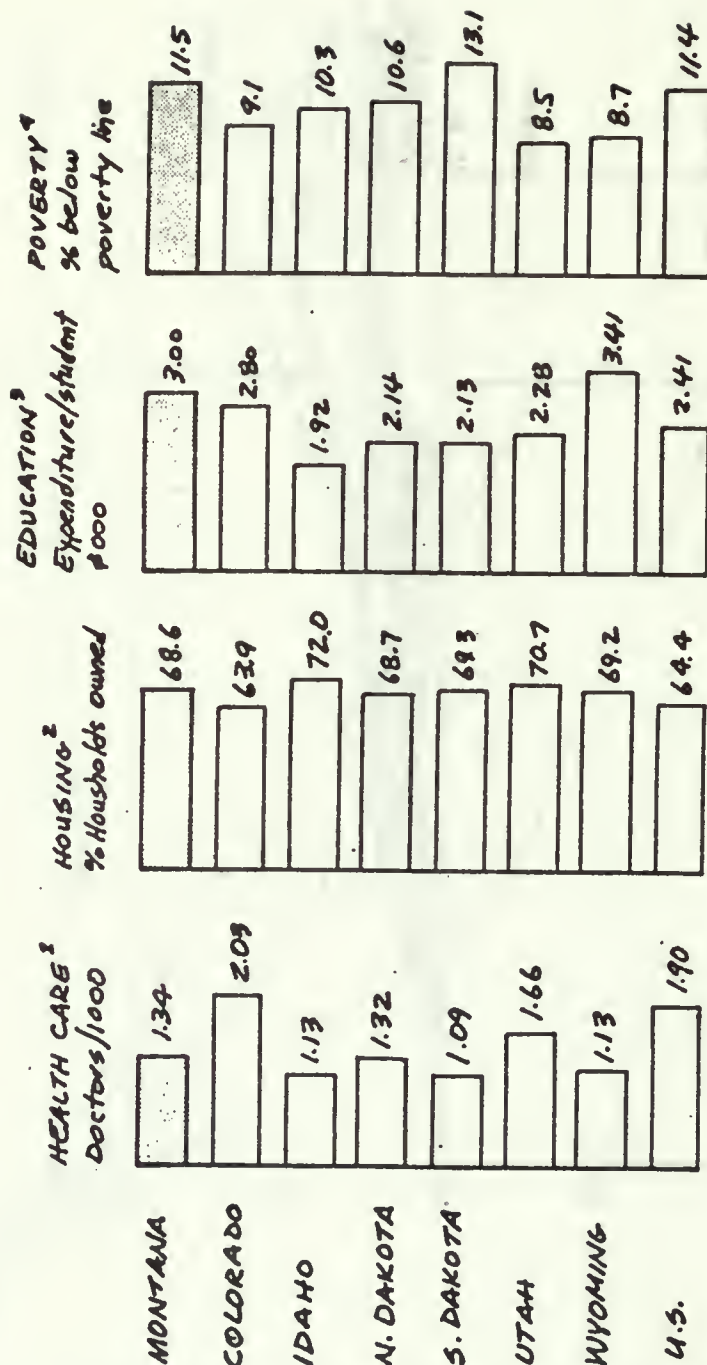
Index: 1980=100



Source: Census Bureau; Bureau of Labor Statistics

Perhaps most importantly, Montana has a mixed performance relative to its neighbors on some basic - albeit incomplete - indicators of social welfare

INDICATORS OF SOCIAL WELFARE

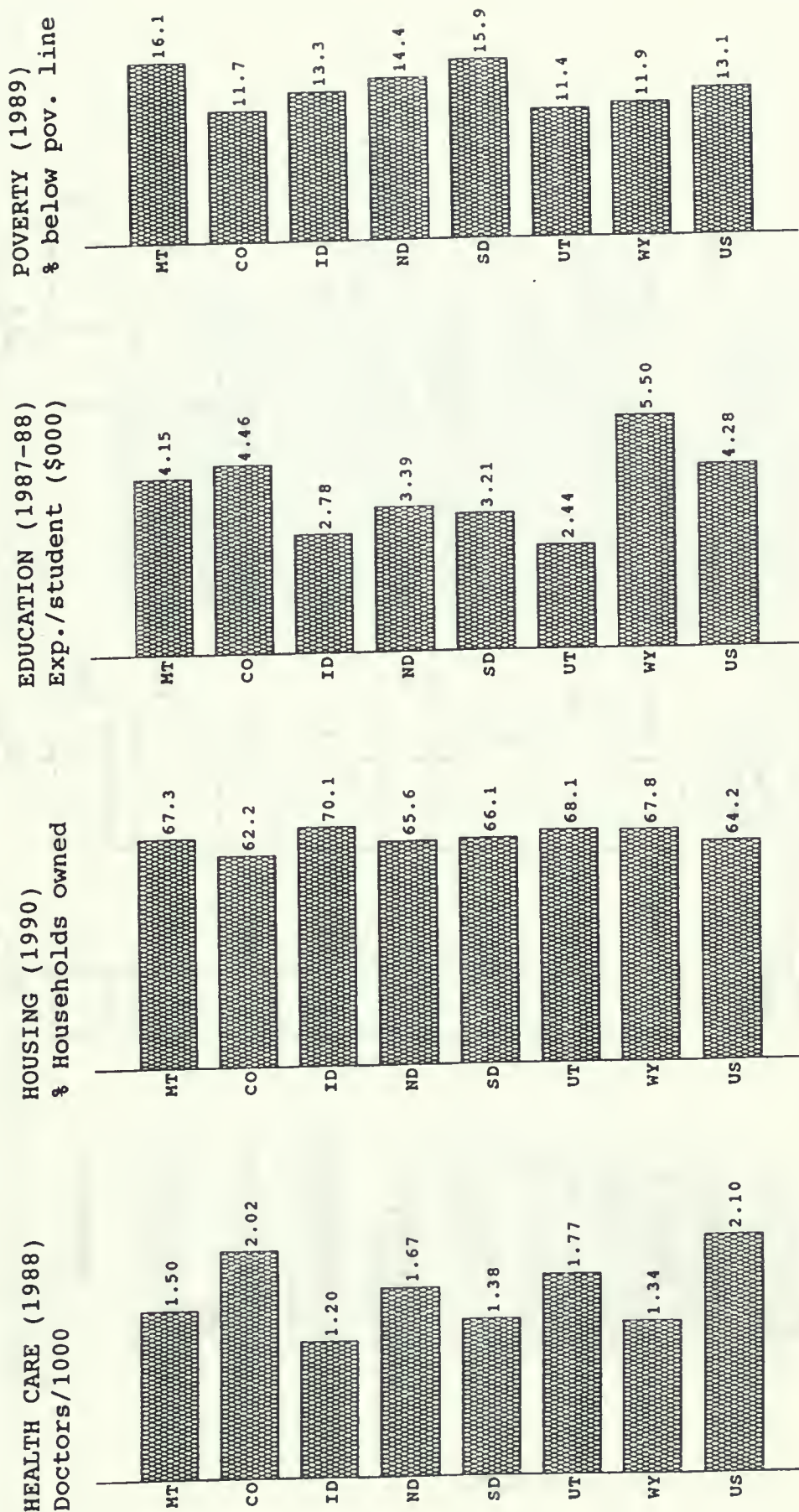


SOURCE:

1. Physician Distribution and Medical Licensure in the U.S., 1979, American Medical Association
2. Bureau of the census, 1980 data
3. NCEs statistics of Public Elementary and Secondary Schools, 1980
4. Bureau of the census, 1975 data

On social indicators, Montana exceeds most of its neighbors in education spending--but also leads in percentage of residents below the poverty line.

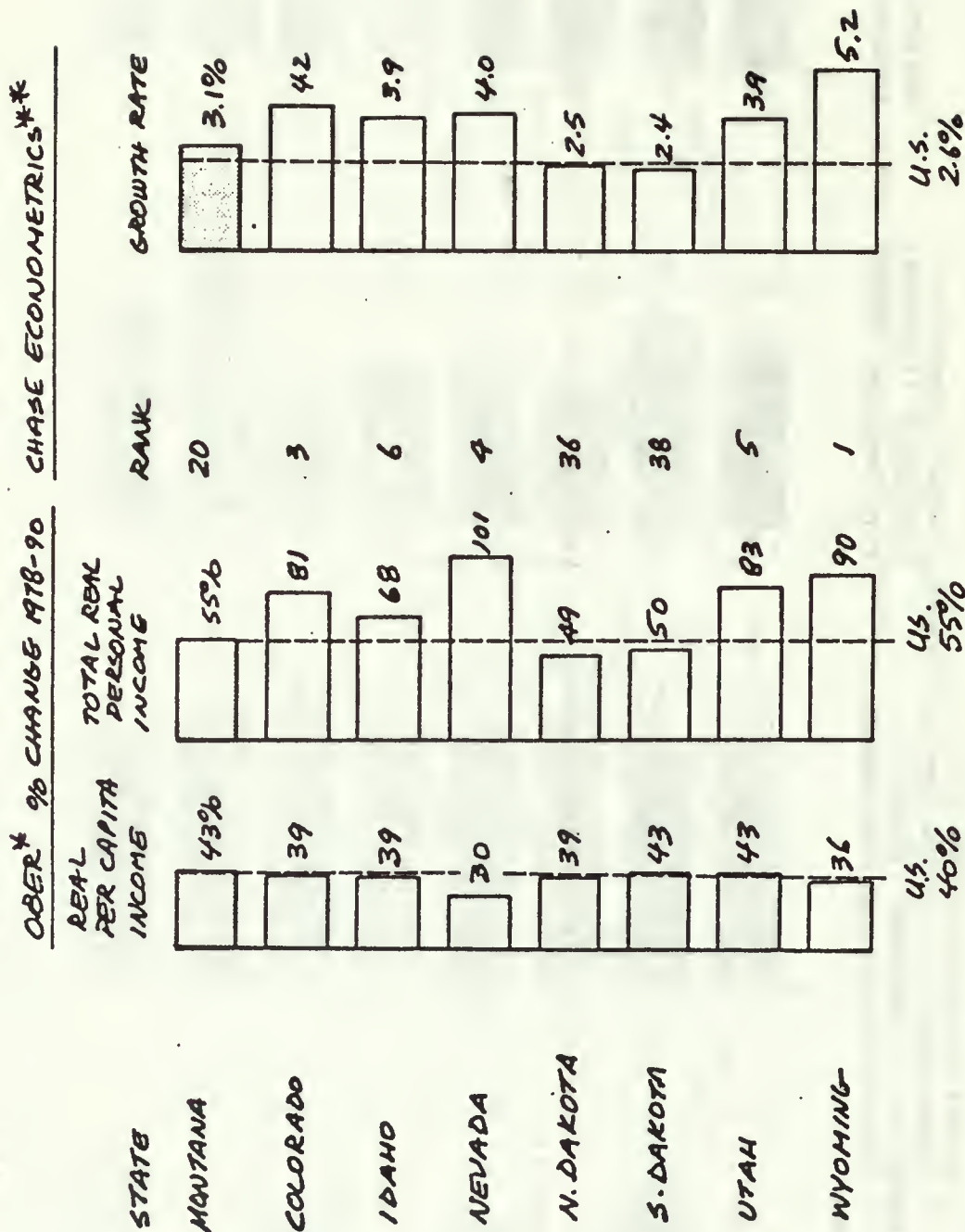
Indicators of Social Welfare



Source: Census Bureau

Independent observers do not believe the fundamental, relative trends will change - Montana's prospects for economic development are below its neighbors.

FORECASTS OF FUTURE GROWTH



* U.S. Department of Commerce, Bureau of Economic Analysis, July 1981

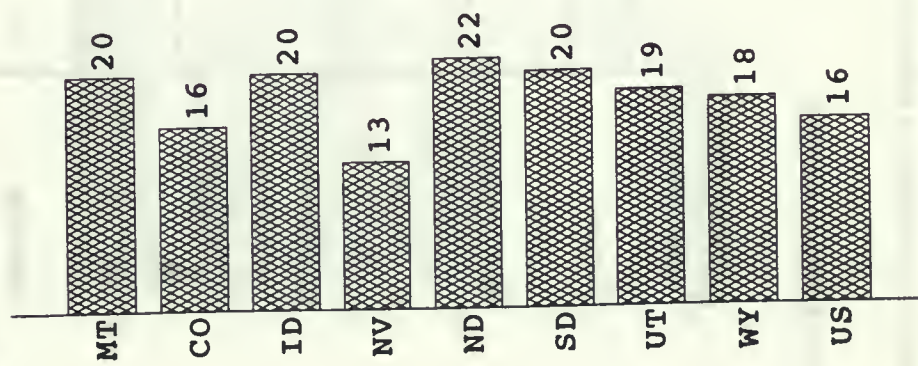
** Chase Econometrics, 1989, based on growth in real personal income, 1978-88

Current projections indicate that Montana's income growth prospects, on a per capita basis, equal or exceed all Rocky Mountain states but one.

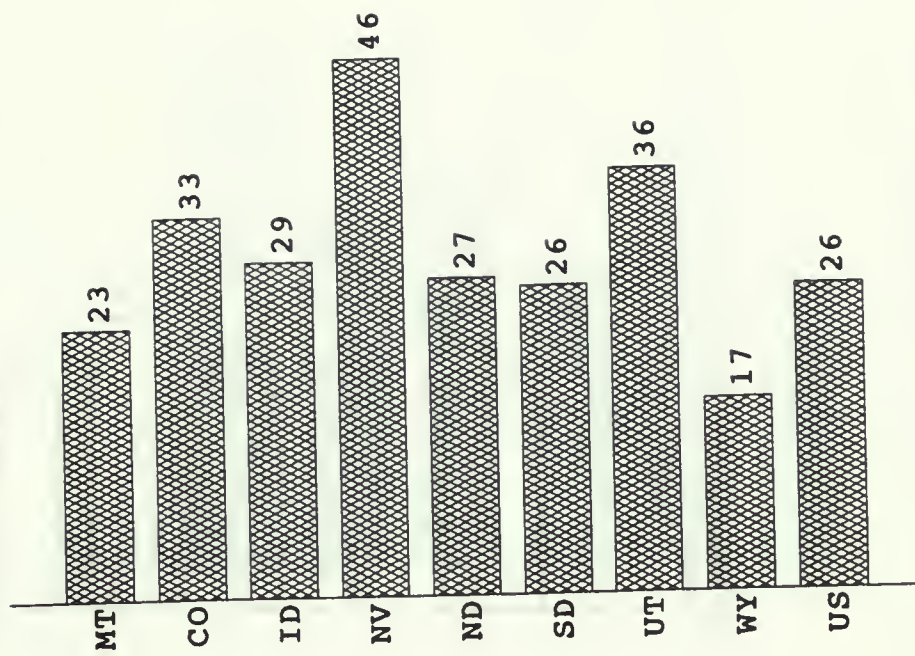
Forecasts of Future Growth

1988-2000

REAL PER CAPITA INCOME
& change



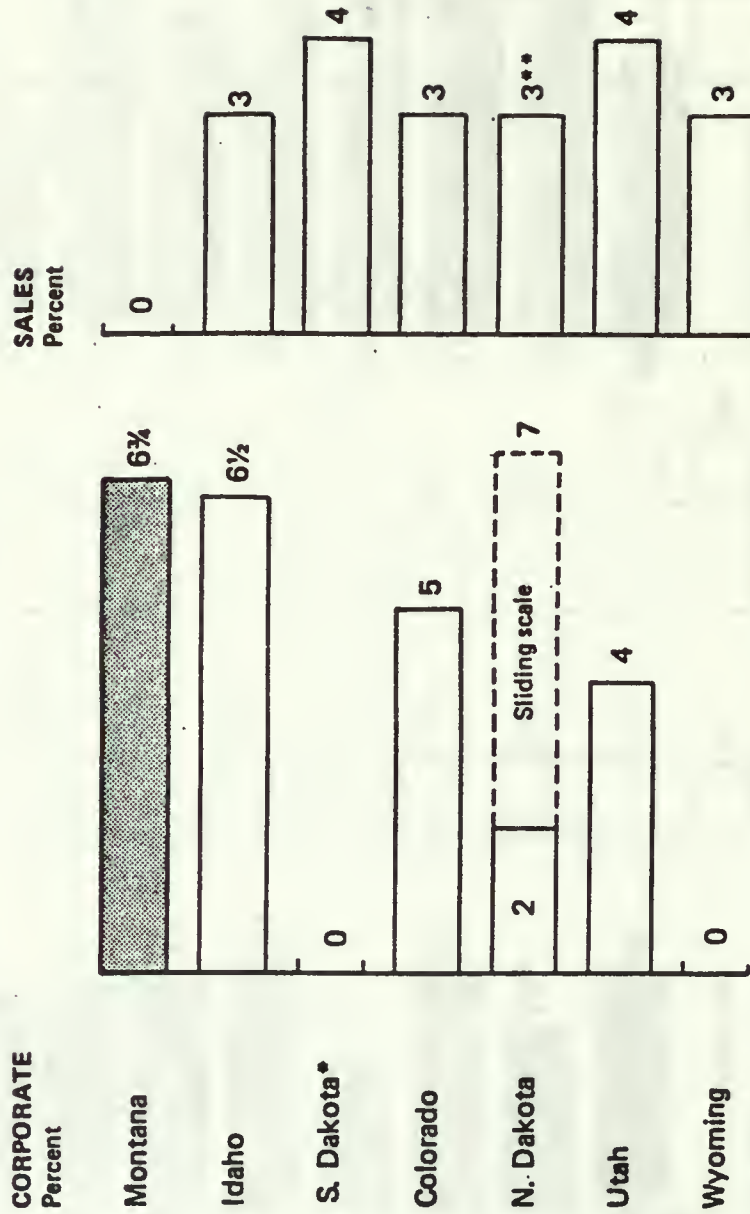
TOTAL REAL PERSONAL INCOME
& change



Source: Bureau of Economic Analysis

Montana has about the highest corporate income tax of all neighboring states - and is the only one without a sales tax

STATE TAX RATES



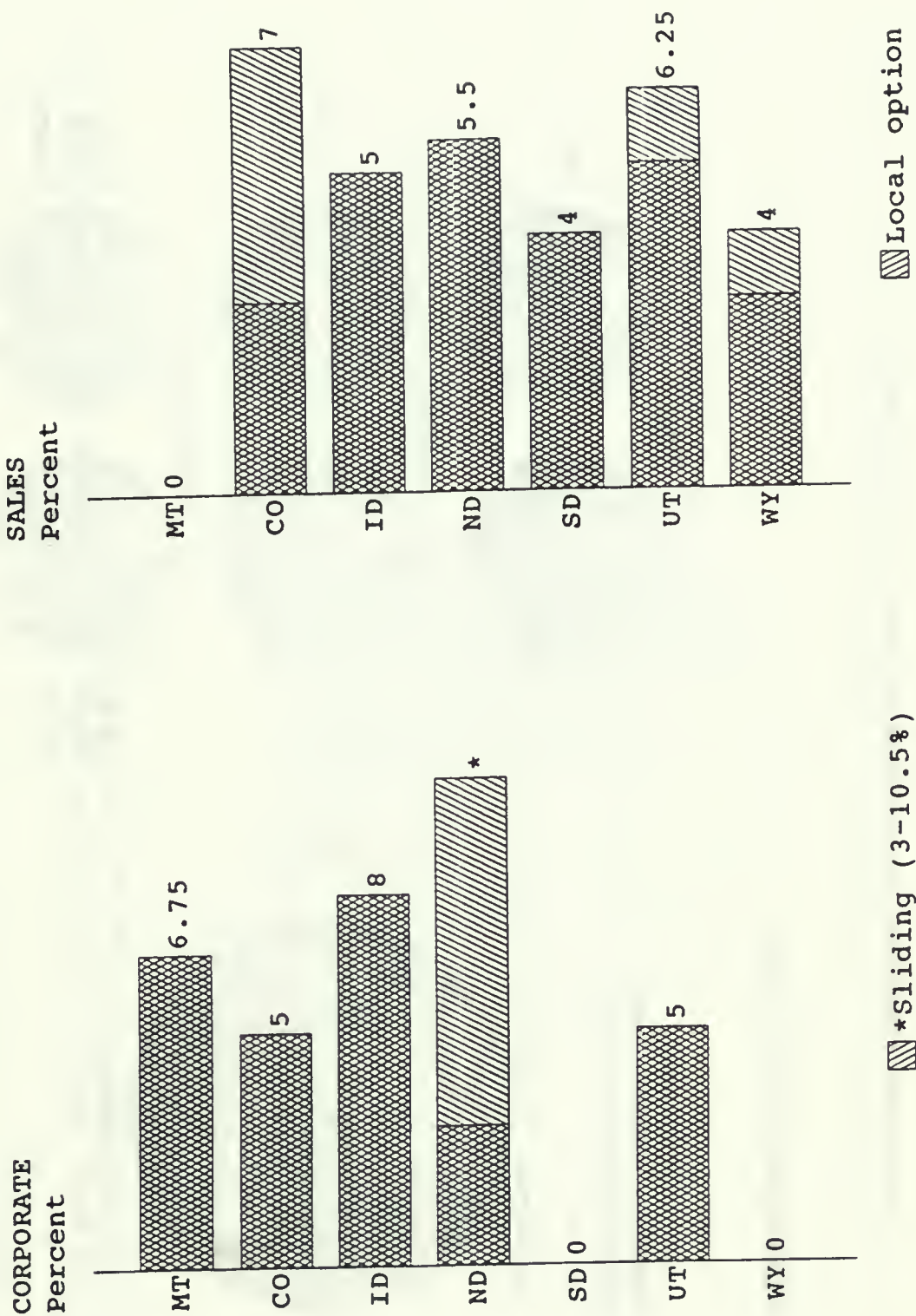
* Banks and Financial Institutions 6%

** Farm machinery taxed at 2%

Source: *The Book of the States, 1982-83*

Corporate tax rates in two other neighbor states now exceed Montana's, while Montana remains alone in not assessing a sales tax.

State Tax Rates



Source: NASDA Directory of Incentives for Business Investment and Development, 1991

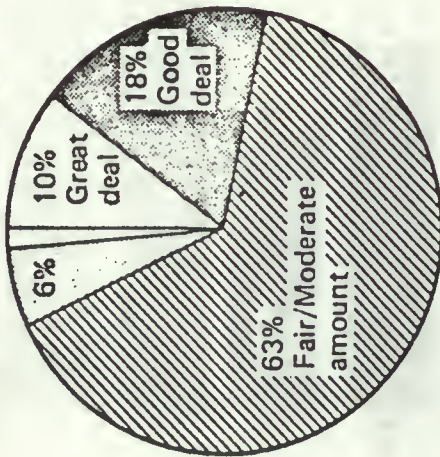
5 - ATTITUDES TOWARDS ECONOMIC DEVELOPMENT

The Montana Poll indicated a near universal desire for economic growth

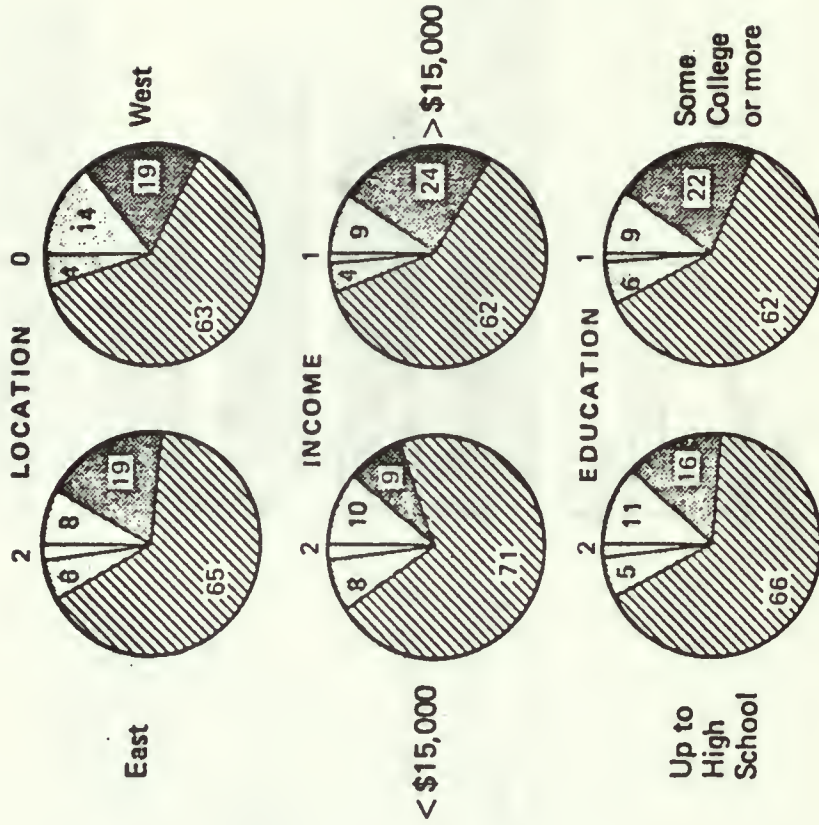
MONTANANS FAVOR GROWTH

How much should Montana's economy grow over the next five years?

Not too much 1% - Not at all



All responses

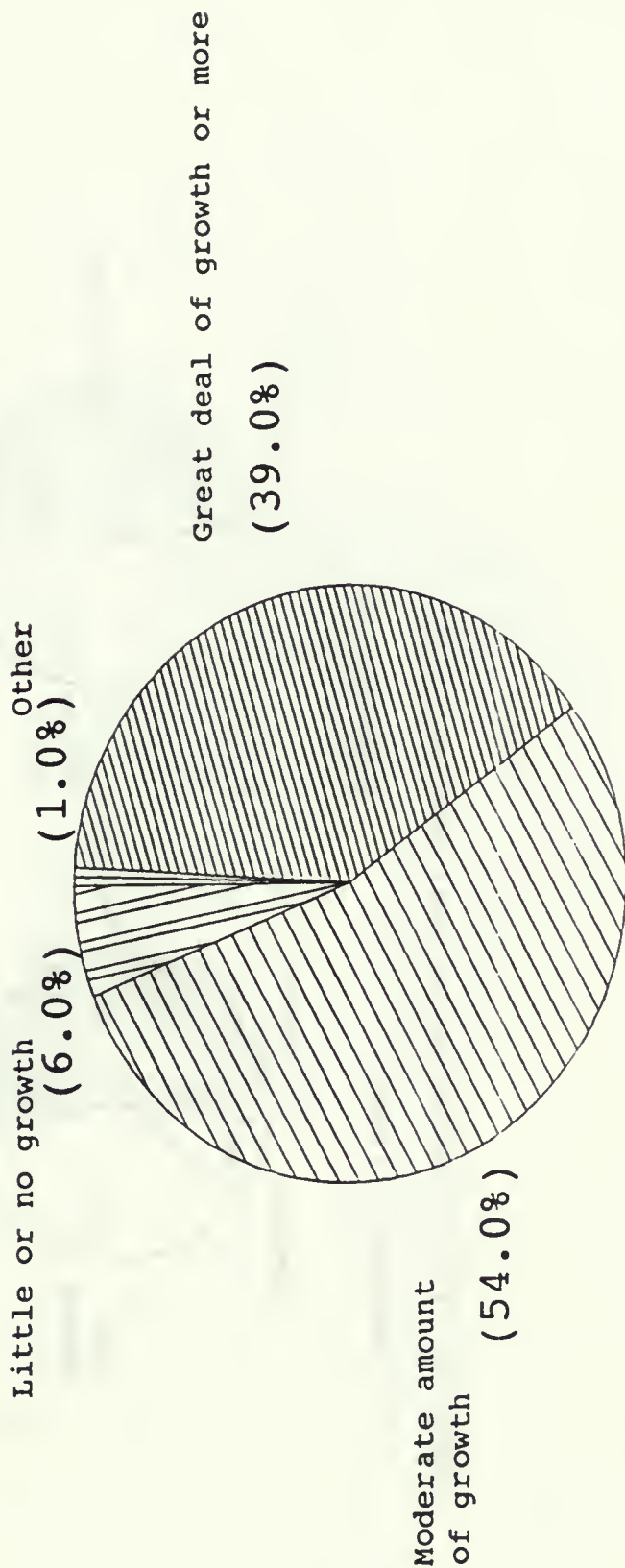


Source: Montana Poll, June/July, 1982

Years later, support for growth is even stronger, with 93% favoring either moderate or fast growth.

Attitudes Towards Economic Development December 1991

What are your thoughts about how much the state economy should grow in the next five years... what would be best for Montana?

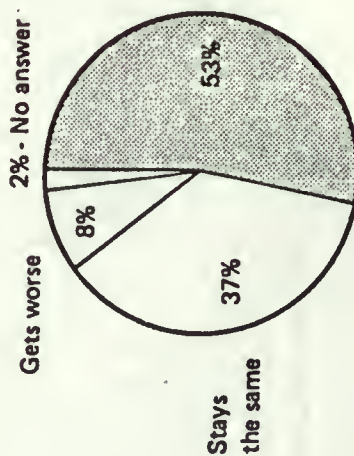


Source: Montana Business Quarterly, Summer 1992

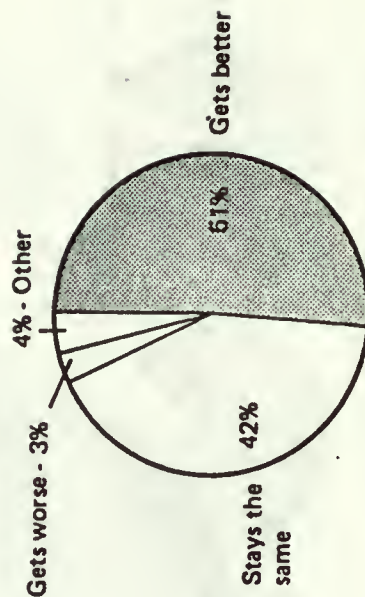
Most people believe they personally benefit from economic growth in both their standard of living and overall quality of life

WHEN THE STATE ECONOMY GROWS, WHAT HAPPENS TO YOUR:

STANDARD OF LIVING



QUALITY OF LIFE

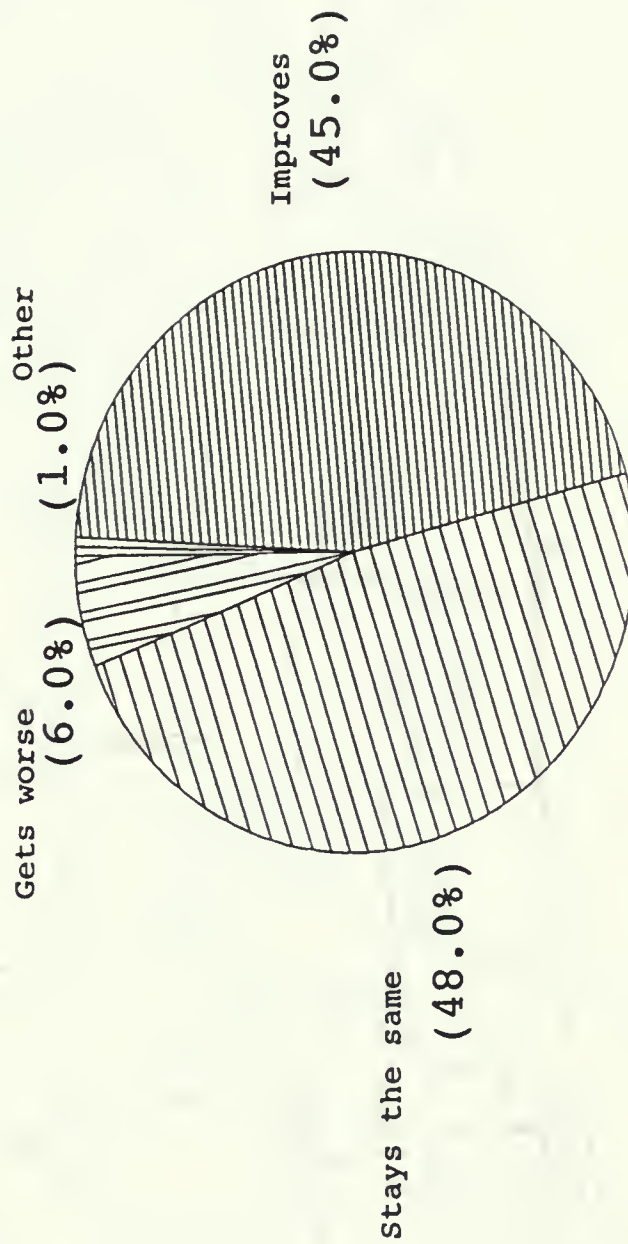


Source: *Montana Poll*, June/July 1982

Most people still believe that growth improves their personal living standard.

Attitudes Towards Economic Development
December 1991

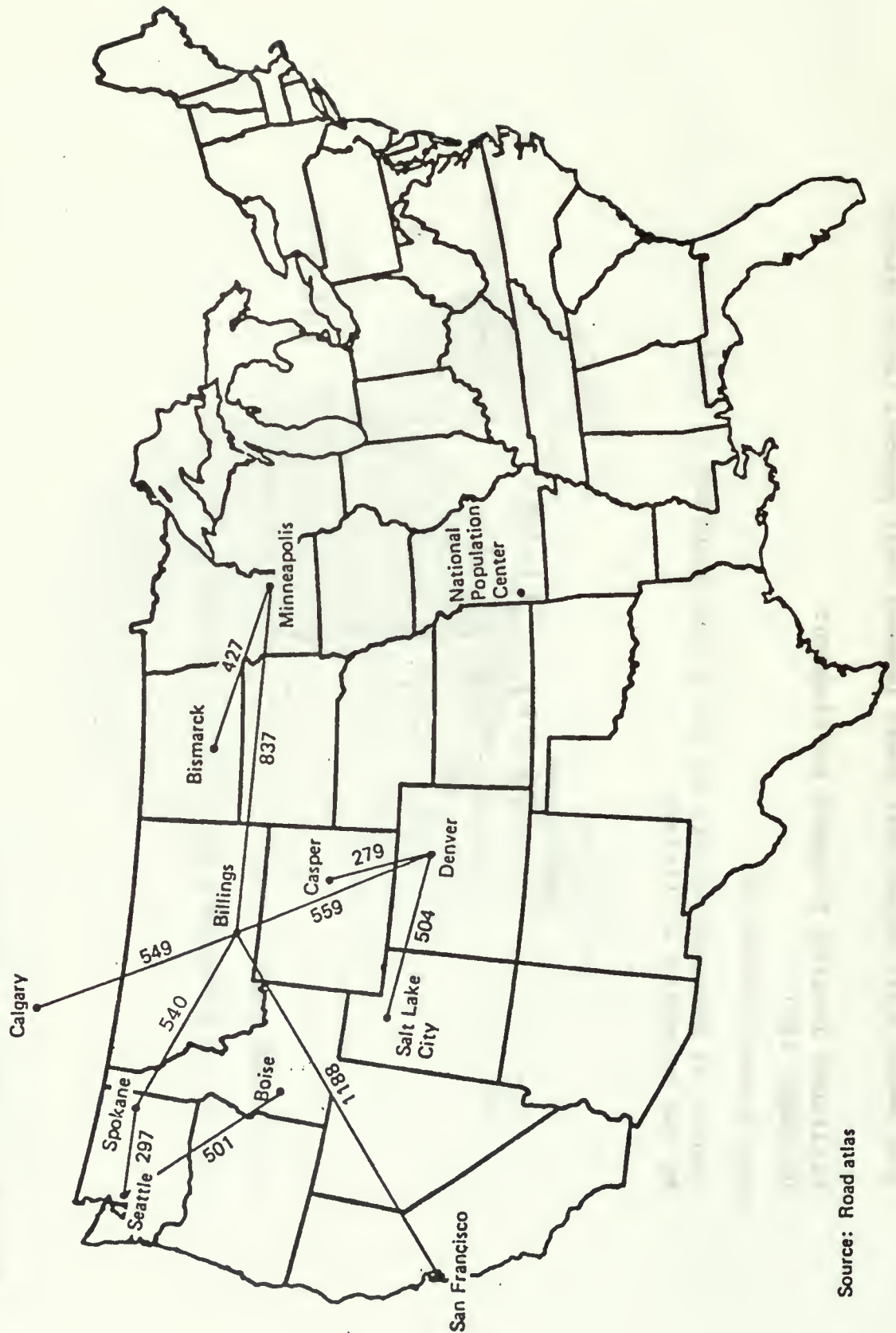
Impact of Economic Growth on One's Own Standard of Living
My own standard of living...



Source: Montana Business Quarterly, Summer 1992

Montana is at least 500 miles further from major markets than any other state in the U.S. National and even regional population and market centers are far away, relative to other western states. There are no significant regional markets within 500 miles, except Alberta.

MONTANA'S ACCESS TO MARKETS



Source: Road atlas

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